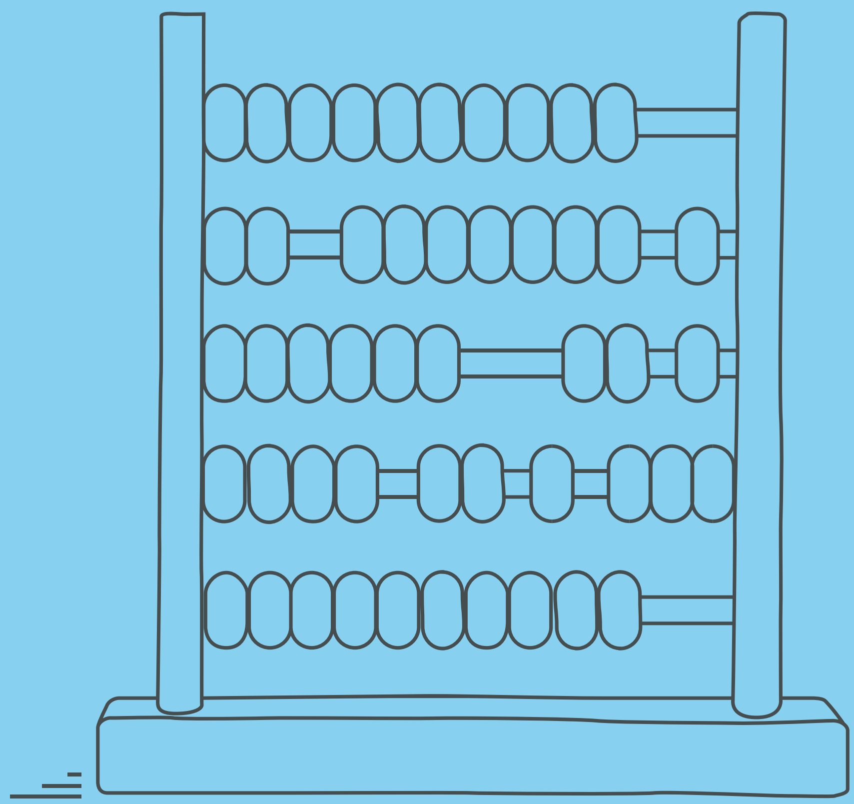
Shepherds Friendly®

Report of the Board & Financial Statements 31st December 2019

The Shepherds Friendly Society Limited



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The Shepherds Friendly Society Limited

Our Directors and Advisers

Non-Executive Directors

Joanne Hindle - Chairman

Nemone Wynn-Evans - Senior Independent Director

Simon Pashby

Cameron Mills (appointed 1 January 2019)

Mark Myers (appointed 17 June 2019)

Executive Directors

Ann-Marie O'Dea - Chief Executive

Nasrin Hossain - Executive Director

Samuel Chivers - Executive Director

Christopher Critchlow - Executive Director
(co-opted 1 January 2020)

Company Secretary and Registered Office

Tim Robertson

Haw Bank House, High Street, Cheadle SK8 1AL

Chief Actuary

Christopher Critchlow FIA

With-Profits Actuary

Cara Spinks FIA

External Auditors

BDO LLP

150 Aldergate Street

London EC1A 4AB

Internal Auditors

Mazars LLP

Tax Advisors

PwC LLP

Bankers

Royal Bank of Scotland PLC

Santander UK PLC

Investment Managers

Royal London Asset Management Limited ("RLAM")

Legal & General Investment Management Ltd ("LGIM")

Property Managers

Matthews and Goodman LLP, Manchester

Shepherds Friendly Society Limited

Registered and incorporated under the Friendly Societies Act 1992, registered number 240F.

The Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) registration number 109997.

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Website: www.shepherdsfriendly.co.uk

Strategic Report

Chairman’s Report

Financial resilience in uncertain times

As I write this report the whole country is asked to stay at home to help us all tackle the threat to life from coronavirus infection, named Covid-19, a global pandemic. The pandemic is a real threat to everyone’s health, particularly the vulnerable. Governments worldwide are taking drastic actions to curb activity, buy time and preserve lives. There has been a significant global economic downturn and both the magnitude and duration of the crisis remain uncertain. The recently retired Governor of the Bank of England Mark Carney observed at the outset that the economic shock caused by Covid-19 could prove “large but will ultimately be temporary”. Shepherds Friendly Society is not immune to this sudden downturn, but we believe that the actions we are taking now will result in positive outcomes. The Board is conducting virtual meetings weekly in these unprecedented times to ensure we can quickly take whatever decisions are necessary to balance the short term concerns of our staff and current members with the long term interests of the Society and its membership as a whole.

The Board, the Executive and our staff have already taken great steps to ensure we remain able to serve our members through the crisis, and to preserve our heritage as a mutual organisation that works to help all its members in times of need.

The Society takes great pride in making sure that our members are at the heart of everything we do. We designated 2019 as “the year of enhancing the members’ experience” and we have delivered a host of improvements aimed at ensuring their journey with us is as seamless as possible. We also recognise the importance of understanding our members’ needs, especially in times of personal difficulty. So, we have continued to invest in our people to give us the capacity to increase our interaction with members and support them in the best way we can.

Enhancements have gone beyond just improving how the Society services its members. A key highlight in 2019 was the launch of a fixed rate bond product giving our members access to a wider pool of competitive savings products. This has been very well received and we will continue to innovate, within the confines necessary in 2020 to weather the Covid-19 storm.

We were also mindful of the need to ensure that we invest our members’ money in a way that delivers stable and secure returns. Accordingly, we made the decision over 2019 to transfer the assets held for our with-profit members into less volatile investments so that we limit any downside effects in uncertain times. This is proving especially advantageous now, when there is so much economic and political uncertainty at home and abroad.

The accomplishments of the past year are reflected in a strong set of underlying financial results and I am pleased to confirm that even in these challenging times, we continue to pay annual bonuses, albeit marginally reduced for 2019. This is a good outcome for our members, sustaining years of positive returns for them.

Strategic Report

Chairman's Report

It is my responsibility as Chairman to ensure that we have the right experience and expertise at Board level to ensure the Society continues to benefit its members. At the 2019 AGM, Mark Myers and Cameron Mills succeeded Geoff Ross and Roger Turner as Non-Executive Directors. Our thanks to Geoff and Roger for their support. Both Mark and Cameron have already proven to be valuable additions to the Board and will undoubtedly continue to present fresh perspective and challenge, gained from their years of experience in the industry. I also welcome on board Sam Chivers and Nasrin Hossain as Executive Directors.

The success of the Society is a credit to the high level of commitment and dedication of our people. I would like to take this opportunity to thank all my Board Colleagues, the team of executives and the staff in the Society for their untiring efforts over the last year. I would also like to say how proud we are of our staff and the help and support they have shown to each other and our members at this time of national crisis.

I would normally invite members to join us at our annual AGM in the summer, but as you will be aware we are mostly working from home, and social and business gatherings are not encouraged. The Society has now initiated remote working practices in line with our Business Continuity Plan. Our members continue to be able to reach us by email and phone and we will endeavour to respond as soon as we are able. We are considering holding a virtual AGM on-line, and I encourage members also to vote on-line where possible, and not by post. Details will be updated on our website at shepherdsfriendly.co.uk.

Finally, on behalf of the Society, we send our heartfelt sympathies to those affected by the virus, and our hopes that the actions taken will be effective so that we will be able to return to normal later this year.

Joanne Hindle
Chairman
30th April 2020

Strategic Report

Chief Executive's Report

2019 business performance

I am pleased to announce that 2019 was a successful year for Shepherds Friendly. We have met our objectives as set out in our 2017 to 2019 strategic plan by achieving growth in income levels and new members at the same time as improving financial strength, as measured by our solvency ratio. Our strategy of focusing on new and existing members' needs and offering them competitive and innovative products delivered through optimised customer journeys has proven to be highly effective.

At 31 December 2018, our Solvency ratio was 153% and by the end of 2019 it was 167%, an increase largely caused by the positive steps the Society took to manage its risks, in particular, the changes in investment approach as outlined in the Chairman's report. The Society has also taken steps to manage its insurance risks exposure through reinsurance arrangements.

Looking forward

Despite the difficult times we currently face from Covid-19 as outlined by the Chairman, we must continue to look forward to a brighter future. 2020 not only marks the beginning of a new decade, but also the start of our next three-year plan. This plan builds on the achievements of recent years and recognises the broader, more unpredictable environment in which the Society now finds itself. We will continue to adopt a member-focused growth strategy with financial strength and resilience at its core. We remain committed to continued organic growth, product enhancements to meet the needs of our members, and adopting clear and purposeful business decision-making.

In the foreseeable future, we expect macroeconomic factors to have a bearing on consumer confidence and to intensify competition for new business. This has been greatly exacerbated by the operational and business challenges caused by the outbreak of the Covid-19 virus.

As part of our strategy to date, the Society has diversified its range of products, introduced reinsurance to reduce our insurance risk, embedded risk management and reduced investment asset volatility. All of these mean that the Society is well placed to adapt its future strategy to ensure we are able to maintain our financial strength at the level we require for long-term success. We will continue to monitor the rapidly evolving situation and take positive steps to protect our members' interests. Our policy of smoothing returns remains an effective way to diminish sudden adverse impacts for our members who remain invested for the long term.

Ann-Marie O'Dea
Chief Executive
30th April 2020

Strategic Report

Financial Performance Report

Overview

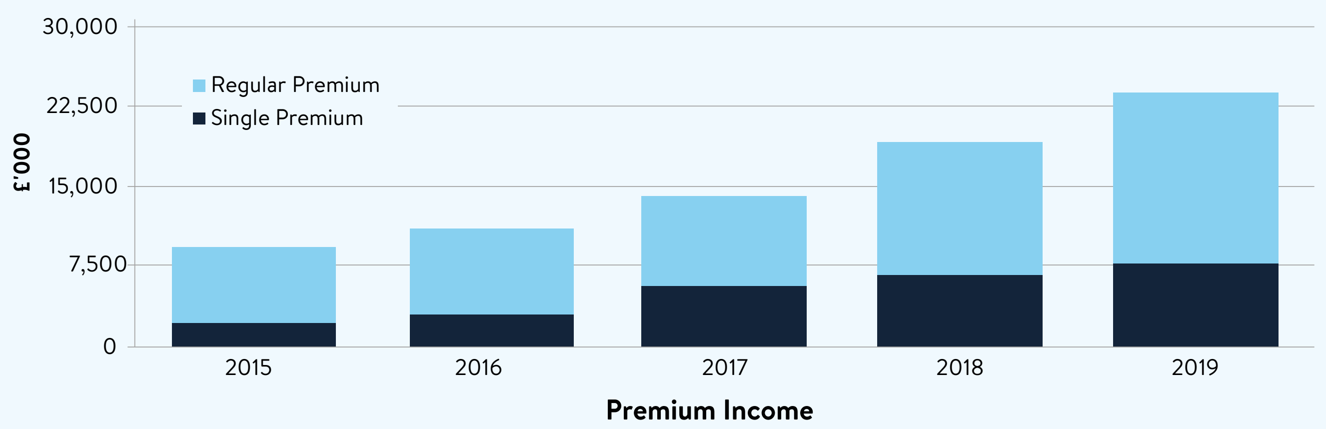
Shepherds Friendly has delivered strong total assets growth in 2019. The Group's total assets has increased from £114.5m to £138.7m driven by strong investment returns and growth in earned premium as a result of new business growth over recent years. Total assets also include contributions of £10.9m from the successful issue of fixed rate bonds in 2019. Financial performance has been enhanced by the Society's ability to keep acquisition and maintenance expenses under control. Third-party reinsurance arrangements have reduced the Society's exposure to insurance risks and reduced the financial impact of strengthening changes to our actuarial methodology. The changes to actuarial methodology, notwithstanding its financial impact of £13.6m in the year, has strengthened the Society's forecasting and financial resilience. The combined impact of the above have contributed to an improvement in solvency ratio from 153% to 167%. Further details on capital movements are set out in note 4 to the financial statements.

The main factors that contributed to the 2019 growth are explained in more detail below.

Premium Income

New business sales in the year, coupled with the increased number of in force plans brought forward from prior years, has meant that gross premium income has increased by 26% from £18.78m in 2018 to £23.57m in 2019. 66% of the Society's premium income in 2019 is in the form of regular premium contributions. This is important because regular premium business tends to stay in force for much longer than single premium lump sums, thereby increasing our financial strength.

Contributions from member plans classified as investment contracts in the financial statements was £11.28m (2018: £0.35m) mainly from the fixed rate bonds issued in 2019.



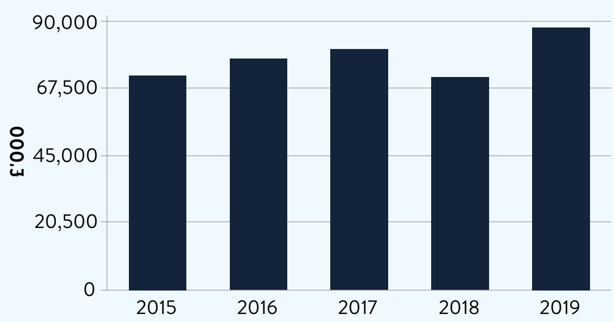
Strategic Report

Financial Performance Report

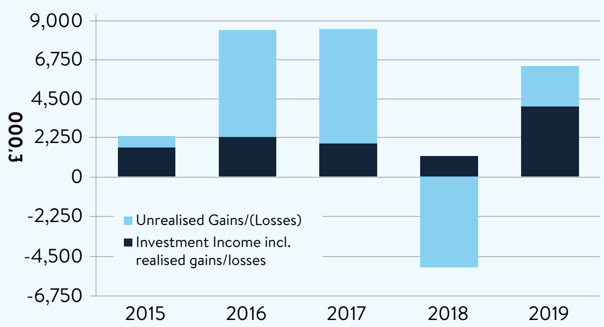
Investment Returns

Market movements in 2019 have been favourable compared to 2018. As a result, total investment gains in 2019 were £5.58m (2018: loss of £6.17m). Realised gains in 2019 were significant as a consequence of selling our investment portfolio that was managed by Vestra LLP and transferring the cash proceeds into pooled investment funds managed by Royal London Asset Management Limited.

Another consequence from the transfer of investments is the lower dividend income and interest income received by the Society in 2019. Income received by the pooled funds are reinvested and reflected in the net investment gains for 2019.



Total Group's Investment Assets

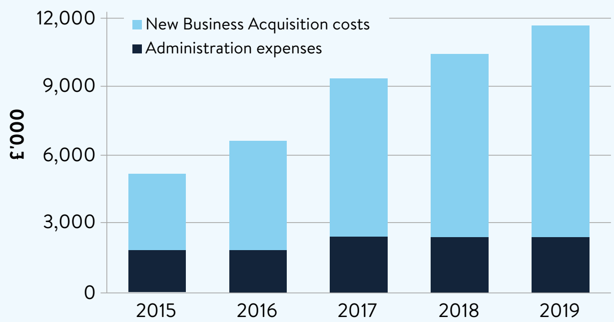


Investment Income

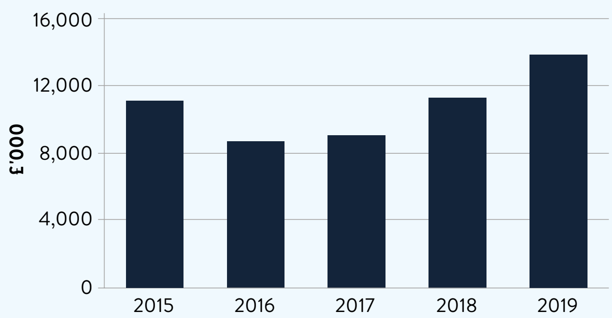
Expenses and Claims

Another important financial measure is expenses. Costs for administering our members' policies have remained stable. Acquisition costs reflect our new business growth, and our continuing investment in technology, people and member initiatives to support that growth.

The Society's reason for existence is to provide financial protection for its members and policyholders. Total claims and benefits payable in 2019 have increased by £2.71m to £14.18m, from £11.47m in 2018 consistent with the growth of the Society's membership.



Group & Society Operating Expenses



Total Claims and Benefits Payable

Strategic Report

Risk Management Report

Risk management is fundamental for the Group and Society in order to increase the likelihood of achieving their strategic objectives and to deliver positive outcomes for its members. Therefore, the risk management approach has evolved rapidly over recent years and it is integral to the Society's strategy, operations and conduct. With increasing scrutiny from the regulators on how the Society considers and manages risks, far greater resources have been allocated to risk management. This has facilitated active monitoring of existing as well as forward looking and emerging risks.

Risk Governance Structure

The Risk Governance Structure sets out the formal governance responsibilities of committees and the Board to support effective risk management.

The Board has ultimate responsibility over risk management. The Board approves and has oversight of the structures in place to ensure the Society achieves its strategic objectives within its risk appetite.

The Board is supported by the Board Risk Committee and the Audit Committee in executing its responsibilities. The Board Risk Committee ensures the Society has an effective and well-integrated risk management framework. The role of the Audit Committee is to assist the Board in monitoring the performance and objectivity of the external and internal auditors, and reviewing the effectiveness of key operational and financial controls.

The day to day oversight of risk management is the responsibility of the Executives. Through the Conduct Risk Committee and Executive Operational Risk Committee, the Executives have established structures to monitor and manage risks. They are further supported by senior management and employees with consideration of risks that are materially relevant at their level of responsibility.

Risk Management Framework

The purpose of the Risk Management Framework is to ensure the Society has a robust framework in place that supports the effective and consistent identification, assessment and management of risks.

The scope of the Risk Management Framework extends to all major risk types faced by the Society. It is designed to sit alongside the strategic plan in defining the high-level architecture of the Society's planning and risk management processes. It supports the identification, assessment, management and control of material risks that threaten the achievement of the strategy, objectives and fair treatment of members, through regular risk and control assessment, risk deep dives, reporting and general oversight activities. The Framework is underpinned by Board approved policies, which are further supported by the policies and procedures of the front-line business areas. These documents provide the detail of how risks are managed, the responsible managers and how activities are conducted on a day to day basis.

To facilitate our risk management framework, all staff have access to a risk management system ("The Risk Database") which enables them to enter new risks, and monitor existing risks and the effectiveness of controls designed to manage those risks. The Risk Database infrastructure is regularly updated to ensure it is fit for purpose. Based on data collated from the Risk Database, the Board and Board Risk Committee receive a comprehensive suite of risk information and analysis that reflect the significant or potentially significant risks impacting the Society's risk profile. The risk information provides the Committee with adequate detail to maintain effective oversight of the Society's risk against its risk appetite.

Strategic Report

Risk Management Report

Risk Appetite and Tolerances

The European Solvency II Directive requires the Society to undertake, as part of its Strategic Planning, a forward looking assessment of own risks and to produce an Own Risk and Solvency Assessment ("ORSA") on an annual basis. It can be produced more frequently if the Society's risk profile has changed materially.

This has established a strong link between business planning, risk assessment and capital management. It ensures that medium term strategic business activities are considered not only in the context of what they may deliver as benefits, but also the degree of risk being taken and how this could adversely impact solvency if too much surplus capital is put at risk. This is captured through the setting of the Society's Risk Appetite Statement that is approved by the Board. The Statement explains the level of risk the Society is prepared to accept in pursuit of its strategic objectives and defines the tolerance range for each material risk. The Society, through the Risk Management Framework, seeks to manage its exposures to each risk and ensure the residual risk exposures are within the tolerance. The Board, through the Risk Governance Structure, considers the Society's adherence to the Risk Appetite Statement and the risk tolerances.

A summary of the principal risks identified by the Society and included in the 2019 ORSA are set out below. Included below are risks that are significant in the foreseeable future, in particular pandemic risk due to Covid-19.

Summary of principal risks

Strategic risks

Risk	Risk movement over 2019	Description	Management and mitigation
Solvency Risk	**Stable**	This is the risk that the Society's solvency ratio falls below its regulatory Solvency Capital Requirement ("SCR") causing the Society to curtail its business model until financial strength has been restored. Included in this risk are market risks that change the value of assets on which solvency is measured and insurance risks that cause deterioration to solvency when these fluctuate significantly outside of forecast ranges.	The Society's solvency ratio is closely monitored by the Board and it has set out action plans depending on the Society's solvency ratio level. The Board has also approved the Capital Management and Restoration Plan which sets out the actions the Society can take to restore its solvency ratio. The Society produces a forward-looking assessment on its likely future solvency position on a range of scenarios. Based on the assessment, management identified sickness and lapse rates, investment assets volatility risks and interest rate risks as areas where particular focus is required to protect its solvency ratio. To address investment assets volatility risks, the Society changed investment management strategy in 2019 and selected a managed fund that has lower risk volatility, achieved by switching from Vestra LLP mainly equities fund to a variable mixed fund managed by RLAM.

Strategic Report

Risk Management Report

Strategic risks

Risk	Risk movement over 2019	Description	Management and mitigation
Sickness Risk	**Increasing**	The Society pays a benefit to policyholders who have income protection contracts. The benefit is payable in the event that they are unable to work due to accident or sickness. There is a risk that sickness claims are higher than expected.	Experience is monitored by the Board, the Board Risk Committee and Senior Management. The Society has two main types of Income Protection products: Holloway style and pure income protection contracts. Both of these types are reviewable in nature which means that the premiums charged to policyholders can be amended to reflect the underlying risk profile of that business.
Lapse Risk	**Increasing**	The value of the Society's protection business is treated as an asset in its financial statements. This is because future premiums are expected to more than enough to cover the cost of benefits and expenses associated with those contracts. This means that the Society is exposed to the risk of that business lapsing more quickly than expected.	The risk is managed by balancing new business growth by value and by product to reduce concentration on certain distribution channels and product types. The risk is monitored regularly by the Board, Board Risk Committee and Senior Management and a range of management actions can be used to mitigate these risks.
Asset Share Coverage Risk	**Decreasing**	The Society seeks to cover its with-profits liabilities with the non-unit linked investment assets held on its Statement of Financial Position.	Through the fixed rate bonds issue and reinsurance arrangement with a third-party reinsurer in 2019, the Society has strengthened its asset share coverage position over 2019. If required, the Society will consider other similar arrangements to further strengthen its asset share coverage. The Board will continue to monitor the balance of new business sales and acquisition costs to manage this risk.
Expense Risk	**Stable**	This is the risk of uncontrolled costs to acquire new business or maintain existing business causing solvency levels to fall.	Acquisition expenses contain commission costs that are managed by the adherence to a commission policy that dictates the levels of commission payable. A similar policy is in place for direct to consumer sales. Maintenance expenses which comprise overhead costs, staff costs and professional fees are monitored by management through the monthly budget variance reporting process. This allows variances to be noted at an early stage and remedial actions initiated. The Board monitors expenses against budget.

Strategic Report

Risk Management Report

Operational risks

Risk	Risk movement over 2019	Description	Management and mitigation
Operational Risk	**Stable**	Included in this risk are matters such as reliable internal processes, compliance with current legal and regulatory matters, and good conduct outcomes. Failures in these areas could result in reputational damage leading to loss of customers, and/or financial penalties.	By ensuring there are detailed policies, processes and procedures documented for operational activities, the Society maintains a low risk operational environment. The effectiveness of these policies, processes and procedures are monitored using the "three lines of defence" approach which includes the Executives Operational Risk Committee as the first line of defence. The Committee is led by the Society's senior management. The second and third lines of oversight are provided by the Society's Risk and Compliance function and the independent Internal and External Audit firm. Any recommended corrective actions are implemented if required. The Society maintains a Business Continuity Plan that sets out the actions that will be taken to ensure all critical business processes can still be carried out during operational disruptions.
Operational resilience	**Stable**	Included in this risk is the ability for the Society to continue to operate its most important business services and to maintain adequate data security.	The Society has identified its critical business processes and mapped each service to systems that support its delivery within the recovery time objectives. The Society utilises an industry leading cloud infrastructure that hosts its integral systems required for operations. In 2019, the Society completed a series of updates and simulations that has enhanced the Society's data management and cyber crisis management. The Society recognises that cyber threats constantly evolve in sophistication and have therefore continue to invest in its security systems to ensure the Society remains resilient to cyber threats and other physical threats to business continuity.
New business Risk	**Stable**	The Society must continue to generate growing volumes of new business to ensure it can continue to fund ongoing operations and generate the returns and benefits reasonably expected by its members. If this is not achieved, risk emerges of spending too much of the members' surplus to fund operational requirements.	The Society maintains a varied product range and varied distribution channels to provide continuous flexibility and adaptability to changing market circumstances. To achieve this, the Society has a continual product development strategy while maintaining a range of products that meet its members' needs. The Society sets new business targets in line with the strategic plan, and risk appetite and tolerances. The Board monitors new business volumes to its targets. The Society monitors operational costs closely to ensure that expenditure is desirable and affordable. Competitor activity and emerging market changes are monitored to capitalise on opportunities when identified.

Risk Management Report

Operational risks

Risk	Risk movement over 2019	Description	Management and mitigation
Counterparty and outsourcing Risk	**Stable**	The Society has a number of material relationships with third parties, but remain fully responsible for the oversight, management and performance of the outsourced activity. There is a risk that the Society is unable to meet its member obligations following the significant degradation of services received which could result in disruption to our operations or loss of financial assets.	Before entering into any such relationships, the Society conducts full due diligence on the organisations and the proposition to ensure any risks associated with the transactions are fully understood. The Society also has a framework for the governance and oversight of material outsourcer and supplier arrangements that includes the requirement for Board approval prior to commencing arrangement. The Board Risk Committee, the Audit Committee and the Fair Members Benefit Committee are all involved in the oversight of material third party arrangements.

Risks that are significant in the foreseeable future

Risk	Description	Management and mitigation
Pandemic Risk	The Covid-19 outbreak has now been labelled a global pandemic by the World Health Organisation. As its impact continues to deepen, it is likely to further intensify the disruptive impact on the global and UK economy. Government actions and measures to control the impact of the outbreak may prove to be slow to take effect and/or uncertain in their impact. A spreading global pandemic could adversely impact the Society's solvency and liquidity position because of deteriorating investment market sentiments, worsening mortality and morbidity experience, decreasing consumer confidence and challenges to operational resilience.	The Society takes a considered approach to minimising and managing the impact of the pandemic on key areas that are most at risk. These areas include investments, insurance exposure, claims and operational resilience. Management actions for these key areas are set out below. The Board meets weekly to monitor developments and to enable decisions to be taken quickly to manage the Society's solvency and liquidity. The Society's investment strategy in managed funds that have a lower risk volatility will partly mitigate the impact of market fluctuations due to market sentiment. The Society monitors the fund performance closely to ensure it continues to meet its members' needs. Management has reviewed its product offering to manage its financial exposure to insurance risks. This includes temporarily restricting underwriting for certain products during the period of uncertainty to mitigate anti-selection effects resulting from the pandemic. To reduce the financial impact of claims, the Society has reinsurance arrangements in place. While government measures to fund personal hardship due to sickness may help reduce claims, the Society closely monitors its liquidity position to ensure it has sufficient cash to cover the cost of claims. The Society also has access to its managed funds should more cash is required. During the government imposed restriction periods, the Society has invoked its business continuity plans to enable the Society to operate remotely. This is in addition to its actions to mitigate operational risks and maintain operational resilience as set out above.

Corporate Governance

Board of Directors

We present below the members of our Board as at the date of approval of the financial statements along with a summary of their professional experiences. There have been changes to the Board composition in the year. At the 2019 AGM, Kim Harris stepped down from the Board, Nasrin Hossain and Samuel Chivers have been appointed as Executive Directors, and Mark Myers and Cameron Mills were appointed as Non-Executive Directors replacing Geoffrey Ross and Roger Turner.

Christopher Critchlow has been co-opted to join the Board as an Executive Director from 1 January 2020 pending the 2020 AGM where he will stand for election as Executive Director.

Profiles of the Board Members in 2019

Joanne Hindle
Chairman

Experience: Joanne joined the financial services industry in 1986 and has held a variety of roles. These include being Pensions Development Director for NatWest Life, Corporate Services Director for UNUM and Chair of the trade body ILAG.

External appointments: Until December 2019 Head of Legal for part of the AXA Group, Chairman of the Board of the Holmesdale Building Society until their merger with Skipton Building Society in September 2018, and Non-Executive Director for the Bank of London and Middle East and Chair of their remuneration committee.

Nemone Wynn-Evans
Non-Executive Director
(Senior Independent Director)

Experience: Over 20 years' executive and non-executive experience in the financial services sector, across wholesale and retail, including as a former Finance Director on the main board of a stock exchange. Her board experience includes corporate governance, financial leadership, corporate finance, corporate communications, investor relations, regulatory liaison, risk and compliance and business development. She is a Fellow of the Chartered Institute of Securities and Investment, an Associate Member of the Chartered Institute of Marketing and holds an MBA from Cranfield School of Management, and read PPE at Merton College, Oxford.

External appointments: Board Advisor at SORBUS Partners LLP, a private wealth management office, Non-Executive Director of Hinckley & Rugby Building Society, Non-Executive Director of Good Energy Group plc, a renewable energy company where she also chairs the Audit and Risk Committee, and Member of the Commercial Advisory Committee at Coventry University.

Ann-Marie O'Dea
Chief Executive

Experience: Ann-Marie brought to the Society a wealth of marketing experience gained from over 20 years in the industry. She has held senior positions in various advertising and marketing agencies working on accounts such as Royal Bank of Scotland, Yorkshire Bank, Parcelforce and the N Brown Group. Since joining she has held several Board roles; Marketing Director and also Managing Director of the Society's subsidiary Financial Advice Network. Ann-Marie was appointed CEO in January 2015.

External appointments: None

Simon Pashby
Non-Executive Director

Experience: Simon is a Fellow of the Institute of Chartered Accountants and former audit partner with over 30 years' experience working in financial services. He has experience of advising a wide range of organisations in financial services on risk, regulations and controls. Simon retired from KPMG in 2012.

External appointments: Council member of the Medical Protection Society, a members' mutual fund which provides indemnity services to the medical profession and Chair of their Audit and Risk Committee, and until December 2019, Non-Executive Director of the Scottish Building Society and Chair of their Risk Committee.

Cameron Mills
Non-Executive Director
(appointed 1 January 2019)

Experience: Cameron qualified as a Fellow of the Faculty and Institute of Actuaries in 1988. He has worked in the insurance industry for over 30 years not only in the UK but also in Europe and Asia. Prior to retirement, Cameron was the Chief Actuary for a mutual insurance company and previous to that he has held roles in risk, compliance, marketing and sales.

External appointments: Non-Executive Director of Chiene + Tait Financial Planning.

Mark Myers
Non-Executive Director
(appointed 17 June 2019)

Experience: Mark has worked in the Financial Services sector for 35 years and has a broad range of experience across banking and insurance, having worked for both public companies and mutual organisations. His recent experience was as CEO of British Friendly, a mutual Income Protection provider and interim CEO of MetFriendly, an affinity based with-profits mutual which provides savings and investment products to members of the police service.

External appointments: Chairman of the Board of Direct Life and Pension Services, Committee Member of Huntingdon Racecourse, and Governor and Trustee of the King's School, Ely.

Samuel Chivers
Executive Director
(appointed 17 June 2019)

Experience: Samuel has been with the Society for 10 years. After a previous role as a software analyst, he has held a variety of roles in both Marketing and Information Technology ("IT") rising to Head of Information Technology for the Society in 2016. Through delivery of the Society's IT Strategy, he has played a key role in modernising the Society's technological infrastructure to improve scalability and meet the needs of both our Members and the business. Samuel was promoted to Chief Operating Officer in 2017 and since then, holds responsibility for the Business Intelligence, IT & Development, Member Services and Project Management functions.

External appointments: None.

Nasrin Hossain
Executive Director
(appointed 17 June 2019)

Experience: Nasrin has been with the Society for 13 years. Her primary responsibility is to manage and develop the Society's culture and people strategy. She is a HR specialist and a chartered member of the Institute of Personnel and Development. Nasrin has over 25 years' experience in various HR roles across different industries.

External appointments: None

Christopher Critchlow
Chief Actuary and Executive Director
(co-opted on 1 January 2020)

Experience: Qualified actuary with 30 years' experience working in the financial services sector. Before joining Shepherds Friendly, Christopher was a Director at OAC plc where he was responsible for the delivery of the firm's professional services consultancy work. He has previously acted as Chief Actuary and With-Profits Actuary to a number of insurers in the UK.

External appointments: Non-Executive Director of Stewart Title Limited.

Board Attendance in 2019

The attendance of the board members at meetings during the year were as follows:- (Bm - Board meeting / Sd - Strategy days)

Current board members:	Jan Bm	Mar Bm	Apr Bm	May Sd	Jun Bm	Sep Bm	Sept Sd	Dec Bm
Joanne Hindle - Chairman and NED	✔	✔	✔	✔	✔	✔	✔	✔
Nemone Wynn-Evans - NED	✔	✔	✔	✔	✔	✔	✔	✔
Simon Pashby NED	✔	✔	✔	✔	✔	✔	✔	✔
Cameron Mills - NED	✔	✔	✔	✔	✔	✔	✔	✔
Mark Myers - NED*	-	-	-	-	✔	✗	✗	✔
Ann-Marie O'Dea - CEO	✔	✔	✔	✔	✔	✔	✔	✔
Nasrin Hossain - Executive Director*	-	-	-	-	✔	✔	✔	✔
Samuel Chivers - Executive Director*	-	-	-	-	✔	✔	✔	✔
Tim Robertson - Company Secretary	✔	✔	✔	✔	✔	✔	✔	✔
Former board members:	**Jan Bm**	**Mar Bm**	**Apr Bm**	**May Sd**	**Jun Bm**	**Sep Bm**	**Sept Sd**	**Dec Bm**
Justine Morrissey - Executive Director*	✔	✔	✔	✔	✔	✗	✗	-
Kim Harris - Executive Director*	✔	✔	✔	✔	✔	-	-	-
Roger Turner - NED*	✔	✔	✔	✔	-	-	-	-
Geoff Ross - NED*	✔	✔	✔	✔	-	-	-	-

*Individuals were Board members for part of 2019 and therefore attendance was not required for some of the board meetings in the year

In addition there were ad-hoc board meetings usually facilitated through audio conferencing to consider and approve key decisions arising over the course of the year and which required a majority of non-executive directors to attend.

Corporate Governance

Directors' Report

Directors and Interests

Details of the current members of the Board are given on pages 14 to 15. Information on how they have governed and managed the affairs of the Society in the year is given in the Corporate Governance Report on pages 16 to 30.

The Society has continued to maintain Directors' and Officers' liability insurance cover during the year and as at the date of approval of these financial statements. As permitted by the Society's Article of Association, the Directors also benefit from qualifying third-party indemnity arrangements in a form and scope which comply with the requirements of the Companies Act 2006.

Business Activities & Future Development

The Group comprises The Shepherds Friendly Society Limited ('the Society') and its subsidiary companies, Financial Advice Network Limited and Financial Advice Website Limited. The Society writes mainly fixed rate bonds, income protection, ISA, JISA and Over 50s plans in the United Kingdom, and maintains a book of Child Trust Fund policies. The Society is incorporated under the Friendly Society Act 1992 and is categorised as a Directive Friendly Society. The Society is authorised by the Prudential Regulation Authority, regulated by the Financial Conduct Authority and Prudential Regulation Authority, and is subject to the European Union Solvency II Directive.

Financial Advice Network Limited operates a network of financial advisers and Financial Advice Website is a service company for the Group.

The Directors confirm that to the best of their knowledge all activities carried out by the Society during the year were within the Society's powers and authorisations.

The Board sets objectives and priorities supported by KPIs and targets, which it monitors on an on-going basis throughout the year. A summary of the financial results for the year together with the KPIs and future development are contained in the Chief Executive Report on page 6 and the Financial Performance Report on pages 7 to 8. The Society's impact assessment of the Covid-19 pandemic is set out on page 17.

Risk Management & Internal Control

The Directors have carried out a robust assessment of the principal risks facing the Group and the Society. An overview of the Group's risk management can be found on pages 9 to 13. Note 5 to the financial statements also provides details about the Group's financial risk management and controls. The effectiveness of the Society's internal controls in managing those risks are monitored by the Audit Committee and an overview of this process is included in the Audit Committee report on pages 23 to 24.

The Directors have reviewed the effectiveness of risk management and internal controls and concluded that there were no significant failings or weaknesses to report.

Employees & Engagement with Employees

The Society is committed to a policy which ensures that, in all aspects of recruitment, training and career development, equal opportunities are afforded to job applicants and employees irrespective of their age, race, religion, sex, marital status, sexual orientation or disability. If employees become disabled during the period of employment, the Society will endeavour to retrain or redeploy individuals to enable their employment to continue. Further details on the Society's commitment on diversity and equality can be found on page 22 of the Corporate Governance Report.

The Directors maintain formal and informal lines of communication with employees as deemed appropriate for the size of the Society. The Executives provide informal updates to employees on recent developments through staff meetings or cascaded through the senior management team. Through the annual staff conference and regular staff surveys, employees are given opportunities to communicate their views and concerns. If an employee wishes to highlight any fraud, serious misconduct or malpractice, they can do so anonymously through the whistleblowing service.

Donations

The Society donated £1,800 (2018: £1,600) to charities during the year. No political donations were made during the year (2018: £nil).

Going Concern Statement

The new AFM Corporate Governance Code comments that the Directors should state whether the business is a going concern over the next 12 months. In considering the going concern statement, the Directors have taken into account the following:

- The Group's business activities, together with the factors that are likely to affect its future development and financial strength (see details in the Chairman's and Chief Executive's Reports from page 4);
- The analysis of material risks faced by the Group and the management of those risks (see details in the Risk Management Report from pages 9 to 13);
- The confirmation from the Society's actuary that the Society had a solvency level higher than that required under the Solvency II Directive as at 31 December 2019 and throughout the year (full details will be included in the Solvency and Financial Condition Report which will be made available on the Society's website during 2020); and
- The impact caused by the Covid-19 pandemic as set out below.

Having due regard to these matters and after making appropriate enquiries, the Directors confirm that they consider it appropriate to prepare the financial statements on a going concern basis.

Corporate Governance

Directors' Report

The Society's assessment of the Covid-19 pandemic

The Directors are mindful of the impact the Covid-19 pandemic may have on the Society. This is an unprecedented situation and it is important to recognise that, as the UK's financial regulators have noted, while the reduction in activity associated with Covid-19 could be sharp and large, it is likely to rebound sharply when social distancing measures are lifted. In addition, in the intervening period, while activity is disrupted, substantial and substantive government and central bank measures have been put in place in the UK and internationally to support businesses and households. These measures, which have been evolving rapidly and could evolve further, are expected to remain in place throughout the period of disruption.

At the time of preparing the Directors' Report and throughout the period since 31 December 2019, the Society's estimated solvency ratio was above the required solvency levels set by its regulators. These estimated ratios have been calculated before the effect of any additional management actions the Society has at its disposal to further improve solvency.

The Directors have also reviewed the impact of the disruptions on the Society's cashflows for the next twelve months and anticipate that the Society will be able to maintain its liquidity. The Society will evaluate available reliefs offered by the UK government to further strengthen its liquidity. The Society does not have any external borrowings, nor any covenants that are being imposed or waived.

The Directors recognise that there remains significant uncertainty over future experience across a number of key business and financial areas. These include:

a) Investment performance due to investor sentiment to worldwide actions to pause economic activity. Markets are expected to recover once restrictions are lifted, but there is a risk that this may take longer than anticipated;

b) New business sales volumes due to lower consumer disposal income. Government measures to support the economy may help but there is a risk that measures may not be effective enough. This could also result in more withdrawals from existing investment policies;

c) Lapses on existing protection policies due to lower consumer affordability. There is risk that higher than anticipated lapses will impact expected premium income and therefore liquidity;

d) Claims levels arising from increased sickness rates. While the Society manages this risk as a core competency, there is a risk that sickness inactivity will be longer than anticipated. The risk should be reduced by government measures to fund personal hardship during the period of crisis, but as yet it is untested and may not be effective enough; and

e) Operational resilience to be able run the business remotely over a prolonged period of time as there is no certainty as to when restrictions will come to an end. While the Society has successfully invoked its business continuity plans that have been adapted to be able to run the business remotely, the Society is dependent on other essential service providers such as internet, communication and system providers who themselves face the risks of being able to remain operational. There is also a risk that despite prevention measures taken, the Society's staff are directly infected by the virus and number of staff affected is significant enough to disrupt critical processes. However it is anticipated that, based on health guidance available, that staff will recover within a month should they become infected but that is not certain.

The actions that management will take to manage these risks in normal operational circumstances are detailed in Risk Management Report on pages 9 to 13 and in particular response to pandemic risk on page 13. The Society also has a Board approved Capital Management and Restoration Plan in place that documents further actions management can take to help restore its capital and liquidity position. Supporting the Society's response strategy are active monitoring and reporting procedures with appropriate escalation to the Board on a weekly basis, and active communications with all staff, its regulators and other stakeholders.

The Society is currently going through a process of re-evaluating its business and operational plans and it is confident that it has the necessary capital and liquidity resilience to continue business as usual activities when the disruption ends.

Longer-term Viability Statement

The Directors are also expected to assess the prospects of the Group over a period longer than 12 months required for the going concern review. During the year, the Directors attended two strategy days and during which the Directors considered opportunities and threats for the Group over the next three years.

The Directors have carried out a robust assessment of the principal risks facing the Society. This assessment, performed as part of the ORSA process, considers the resilience of the Society to risks that would threaten the business model, future performance, solvency or liquidity of the Society. This includes an assessment of the Society's capital resilience to stress testing using a range of severe but plausible scenarios to the end of 2022. The scenarios considered included significant unfavourable variations in the levels of new business, underlying economic assumptions, and policy lapses and claims compared to those expected. In addition, Covid-19 pandemic scenarios have been introduced.

Corporate Governance

Directors' Report

Longer-term Viability Statement (continued)

The Covid-19 pandemic scenarios take into consideration the uncertainties relevant to the crisis and these are set out as part of the Going Concern assessment on page 17. The scenarios are designed to be extreme, but plausible, based on the assumption that the impact on the UK is immediate but temporary. The potential impact of Covid-19 pandemic and management actions in response to the pandemic are subject to close and continuous monitoring by the Directors.

Based on these assessments and noting the uncertainties detailed above in relation to Covid-19, the Directors have reasonable expectation that the Group and the Society will be able to continue in operation and meet their liabilities as they fall due over the period at least to December 2022. While the period of assessment is three years, the ORSA indicated a viability over a longer time period.

Statement of Responsibilities of the Board of Directors

The Directors are responsible for preparing this Directors' Report in accordance with the Friendly Societies Act 1992 and the regulations made under it.

The Directors are also responsible for preparing the Strategic Report (please see Pages 4 to 13), the Report on Corporate Governance (please see Pages 16 to 30) and the Financial Statements (please see pages 37 to 63), in accordance with applicable law and regulations.

Friendly Society law requires the Directors to prepare Financial Statements for each financial year. Under that law, they have elected to prepare the Financial Statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice).

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and of Shepherds Friendly Society Limited as at the end of the financial year and of the income and expenditure of the Group and of Shepherds Friendly Society Limited for the financial year.

In preparing these Financial Statements, the Directors are required to:

a) select suitable accounting policies and then apply them consistently;

b) make judgements and estimates that are reasonable and prudent;

c) state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts; and

d) prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and Shepherds Friendly Society Limited will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy the financial position of the Group and of Shepherds Friendly Society Limited and enable them to ensure that the Financial Statements comply with the Friendly Societies Act 1992 and the regulations made under it.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information.

The Board confirms that, in its view, it has complied with the above requirements in preparing the Report and Financial Statements and that it considers the Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy.

Disclosure of Information to the Auditors

The Directors who held office at the date of approval of this Director's Report confirm that, so far as they are aware, there is no relevant information of which the Group's and the Society's auditor is unaware, and each Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's and the Society's auditor is aware of that information.

Auditors

BDO LLP were appointed as auditors at the 2019 AGM, which marked the tenth anniversary of audit services to the Society by the firm and its predecessor, Moore Stephens LLP, whose financial services practice merged with BDO in February 2019. Following a competitive audit tender during 2019, the Directors recommend the re-appointment of BDO LLP, who will then be permitted to serve for up to a further ten years, subject to annual approval by members. A resolution to re-appoint BDO LLP will be proposed at the 2020 Annual General Meeting.

T Robertson
Company Secretary
30th April 2020

Corporate Governance Report

Introduction

The Society delivers high standards of Corporate Governance by having documented policies and procedures and internal systems of control enabling the Society to be well managed. The effectiveness of the policies, systems and controls are monitored by a "three lines of defence" approach. The first line of defence and primary responsibility lies with the senior management team. The second line of defence is provided by the internal Compliance and Risk functions, and their consultancy advisers. The third line of defence is provided by the independent Internal Audit firm and external statutory auditors. Outputs from the three lines of defence enables the Board and the Board Committees to have governance oversight of the whole Society. The Committees are led and consist of independent non-executive directors. The Directors are able to confirm, as a result of these processes, that the Society had effective systems and controls in place during the year and at the time of producing this report.

The Society is not large enough to have its own Internal audit staff and therefore this function is outsourced to a professional internal audit firm. The performance of the internal and external audit firm is evaluated annually by the Audit Committee.

The Society is governed primarily by the Friendly Society Act and the Corporate Governance Code set by the Association of Financial Mutuals. The Society is also committed to meeting requirements set by other governance regimes which have contributed to improved overall governance standards. Each of these are discussed below.

The AFM Corporate Governance Code ("The AFM Code")

The Society is a member of the Association of Financial Mutuals ("AFM") and as such is committed to satisfying all the standards set by this Code. The new AFM Code was effective from 1 January 2019 and replaced the AFM's Annotated Corporate Governance Code.

The AFM Code has six overarching principles and the Directors have set out below how the Society has applied each principle.

Principle One: Purpose and Leadership

Purpose

Since the Society was established in 1826, its purpose is always to act in its members' interests as it is owned by its members. Under the Board's direction, the Society has articulated its purpose into a mission statement which then drives the Society's strategy, operating practices and approach to risks.

The mission statement provides the Society with a clear sense of purpose and collective vision. The mission statement is reiterated to the workforce during the annual staff conference and employees are encouraged to contribute ideas on how the Society can continue to deliver its strategic objective in line with its mission statement. The mission statement is published on the Society's website.

Values and principles

The Society's values and principles underpin all internal processes and operating practices. As a regulated entity, culture and conduct risk is monitored internally by the Society's Culture Director. Regular reporting provided to the Board. The Board maintains responsibility in ensuring the Society operates to the level of conduct required by its Regulators, and this has been embedded into corporate and individual performance targets.

Strategy

Every three years, the Board develops a three-year strategic plan. The objective is for the Society to continue to grow in line with its purpose, values and principles. This is discussed further in the Strategic Report on page 6. The Society assesses the potential risks of the strategic plan and how it plans to manage those risks through the ORSA process.

Principle Two: Board Composition

Chair

There is a clear division of responsibilities between the independent Chairman and the Chief Executive Officer ("CEO"), with the Chairman responsible for leading the Board in pursuit of its objectives, and the CEO responsible for running day to day operations within the authority delegated to her. This is documented in the Board Manual.

Balance and diversity

The profiles of the Society's Board members are on pages 14 to 15 and they highlight the skills and experience that each Board member brings, which in turn provides constructive challenge to achieve effective decision-making. The Society recognises the benefits of having a diverse Board and highlights its commitments in its Board Diversity Policy that is accessible through the Society's website. At 31 December 2019, four out of the nine Board members are female. Through the Nominations and Governance Committee, any appointments are recommended to the Board following a formal, rigorous and transparent process. The Committee will consider all appointments on balance of skills, experience, independence, knowledge and diversity.

Corporate Governance Report

Size and structure

The Board as at 31 December 2019 comprises a Chairman, CEO, three Executive Directors and four Non-Executive Directors. One of the Non-Executive Directors is appointed as Senior Independent Director, who also serves as an intermediary for the other directors and the Society's members. All non-executive directors meet the definition of being independent, including the Chairman who has been a member of the Board since 2008. Although the Chairman has been a director on the Board for over nine years, she continues to demonstrate independence of thought and judgement, and acts with an independent character. At least half of the non-executive directors are considered to be independent.

The Non-Executive Directors, including the Chairman present themselves for annual re-election by the Society's members annually at the Annual General Meeting ("AGM").

Effectiveness

On an annual basis, the Nominations and Governance Committee conducts an assessment of the Board's and its Committees' performance, and the individual directors' performance. The Senior Independent Director conducts and chairs a meeting with the non-executive directors to appraise the Chairman's performance on at least an annual basis. The Senior Independent Director will also ensure that the annual performance evaluation of all the non-executive directors
is conducted and that any matters arising from the review are promptly acted upon. The assessment process ensures operational effectiveness of the Board can be continuously improved, and that individual directors have development plans to build on the induction training that they received upon commencing their roles.

The Board recognises the need to conduct a Board effectiveness review that is externally facilitated at least once every three years. The last external assessment was undertaken in December 2018.

All Directors have access to the Company Secretary and any of the Executives to ensure they can gain a full understanding of all the information they are provided with ahead of Board or Board Committee meetings. They can also access, at the Society's expense, external expert advice should they feel the need to do so.

Principle Three: Director Responsibilities

Accountability

The Board Manual together with the Governance Manual detail the Society's overall governance arrangements, decision-making processes and directs the conduct of the Board. The Board Manual also details the broad responsibilities, systems, controls and principles by which the Board should operate.

The Society operates a Conflict of Interest Policy which provides guidance when a potential conflict of interest may arise. When actual or potential conflicts arise, the Director completes a Conflict of Interest Declaration. These are then considered by the Nominations and Governance Committee.

Committees

The Board Committees' delegated authorities are defined in a documented Terms of Reference that is accessible through the Society's website. The Committees' members comprise independent Non-Executive Directors who have relevant skills and experience. For example, the Audit Committee is chaired by Simon Pashby who has recent and relevant financial experience, and the Remunerations Committee consists of three independent non-executive directors and it is not chaired by the Board Chairman.

While the Committees have delegated authority for governance oversight, the Board maintains responsibility for making decisions based on their recommendations as documented in the Terms of Reference.

The Committee reports are on pages 23 to 28.

Integrity of information

Through internal processes that are regularly reviewed on its effectiveness using the Society's "three lines of defence" approach, the Board is provided with a broad range of information that is accurate, comprehensive and can be relied on for effective decision-making. Key processes, from which information is derived, are reviewed on a cyclical basis by the outsourced internal audit firm. Their findings and recommendations are provided to the Audit Committee. Financial information is collated from the Society's accounting system and it is externally audited on an annual basis.

Principle Four: Opportunity and Risk

Opportunity

The Board is focussed on promoting and delivering long term value by maintaining responsibility for all strategic decision-making. The Board hold two strategy days annually to identify and assess opportunities with consideration to the Society's risk appetite. The long-term strategic objectives of the Society as agreed by the Board are highlighted in the Strategic Report on page 6.

Risk

Through the annual ORSA process, the principal risks have been identified and robust reporting delivered to the Board and the regulator on management's plans to address and mitigate those risks. The principal risks and uncertainties are disclosed in the Risk Management Report on pages 9 to 13. The Board also monitors emerging risks such as climate change to ensure the Society is well-placed to manage these risks if they materialised. Further details on management actions on climate change risks are on page 22 of this report.

The Society maintains systems and controls designed to manage risks and to prevent, where possible, risks from materialising.

Corporate Governance Report

Responsibilities

The Board Risk Committee ensures the establishment, development and maintenance of an effective and well-integrated risk management system. It ensures that systems and processes are in place to enable existing and emerging risks to be identified, measured, mitigated, monitored and reported. The Committee achieves this outcome by operating a software-based risk system that is supported by a comprehensive range of internal policies, processes and procedures. The effectiveness of these systems is monitored by the internal compliance team, the independent internal audit firm and the Audit Committee.

Principle Five: Remuneration

The Board seeks to encourage long term success of the Society by setting remuneration at levels which encourage key executive staff to remain for the long term and to earn a worthwhile element of performance related pay within their overall remuneration package.

This is achieved by benchmarking remuneration levels against those of similar sized businesses operating in similar markets. This enables remuneration to be set which encourages success, but does not lead to overpayment.

Similarly, non-executive directors are paid market competitive rates but no element of incentivisation or performance related pay applies.

The Society has a Remuneration Committee whose role is to independently monitor, assess and recommend remuneration structures to the Board on a periodic basis. The Committee consists of three independent non–executive directors. No director, or any staff member, can set their own level of pay. The Remuneration Committee also ensures that no remuneration structures exist which could cause member or policyholder detriment.

Although the Society is not required by law to submit a Gender Pay Report, the Society has produced a Gender Pay analysis for internal use to identify any potential issues. A summary of the Society's gender pay analysis for 2019 is included in the Remuneration Committee's report on page 28.

In 2019, the Society was accredited as a National Living Wage Employer, an important external validation that the Society's employees are rewarded fairly.

Principle Six: Stakeholder Relationships and Engagement

General

The Society cultivates its relationships with members through a varied programme which maintains contact with them and enables them to pass on their views about the Society. These methods are a mixture of face to face, telephone, written and internet contact.

Through these methods we are able to learn how satisfied our members are with our service, and to gain valuable insights into how we can improve further.

Members

The Board presents a fair, balanced and understandable assessment of the Society's position and prospects to its members by the publication of this Annual Report and Financial Statements and of the Solvency and Financial Condition Report. The Financial Statements are externally audited. This ensures the views of the Board are independently assessed. Both documents can be accessed through the Society's website.

Members also have access to the Society's Senior Independent Director through the Society's website, should they have concerns which they do not feel have been properly dealt with through other channels of communication.

The Society holds a General Meeting annually for members to vote for or against the approval of the Annual Report and Financial Statements and other substantial issues. For each resolution, members have the option to elect the Chairman as a proxy for their vote. The last General Meeting was held on 17 June 2019 and the meeting was attended by all Board members. The minutes of the meeting and results of the voting for each resolution is accessible through the Society's website.

Employees

In accordance with the Society's whistleblowing policy, employees can raise concerns directly to Simon Pashby, an independent non-executive director. The Audit Committee reviews the whistleblowing policy annually.

The Society organises a staff conference annually to facilitate a meaningful, two-way dialogue that enables employees to share ideas and concerns with senior management and the Board. In addition, Simon Pashby engages in dialogue on any matters of concern with a group of employees who are representatives of functions within the Society. Meetings are normally scheduled before each Board meeting and he summarises the conversations for consideration by the Board.

Suppliers and business partners

The Society works with a number of third-party suppliers, who provide a variety of business products or services. In 2019, the Board approved the Society's Supplier Management and Outsourcing Framework. This is designed to support the Society in its engagement with suppliers, ensuring the Society achieves the required results through third parties while adhering to regulatory requirements.

Corporate Governance Report

The community and the environment

The Society partners with Seashell Trust, a charity in the local community, providing them with support in the shape of donations and running of events.

The Society's 2019 ORSA makes references to the financial risks from climate change. The Society is working towards meeting the Regulator's expectations for the Board to understand and assess the financial risk from climate change, and to be able to address and oversee these risks. The Board has nominated the Chair of the Nomination and Governance Committee as the senior person accountable for overseeing risks from climate change.

We are pleased to confirm that we have explained how we have complied to the Principles of the AFM Code.

Governance of Diversity and Equality

The Society has a formal Board Diversity policy which aims to employ, train and promote staff on the basis of their experience, abilities and qualifications without regard to their gender, age, ethnicity or religious beliefs. The Board Diversity Policy is accessible through the Society's website.

An assessment of the Society's gender pay gap is included in the Remuneration Committee report on page 28.

We are pleased to confirm that during the year the Society has promoted a People culture that embraces diversity and equality.

Governance Standards of UK and European Union regulators

The Society is regulated by both the Prudential Regulation Authority and the Financial Conduct Authority. The former is primarily concerned with the financial standing and management of the Society's capital base, investments, cash flows and solvency. The latter is concerned with the behaviours, conduct and culture of the Society and how these factors result in the way its members and policyholders are treated.

How the Society has satisfied their requirements is explained here.

Prudential Requirements

In 2016 the European Solvency II Directive was implemented and national regulators, in our case the PRA, transposed into their Rules a range of European Union wide requirements which must be satisfied on an on-going basis.

One of the requirements is that the Society must always maintain a capital position which makes it solvent, and means it is able to meet its liabilities as they fall due.

We are pleased to report that in 2019 and the prior year the Society comfortably maintained such a position. A measure of solvency is the Solvency Ratio which is a percentage showing how much capital resources the Society has over what is needed as a minimum to meet the liabilities of the Society as they fall due. In 2018 the figure was 153% and in 2019 it had increased to 167%, an increase attributed mainly to investment market improvements at the end of 2019. The regulations require us to publish each year a Solvency and Financial Condition Report and this can be found on the Society's website.

A further requirement of the Solvency II Directive was that the Society must conduct at least annually an Own Risk and Solvency Assessment ("ORSA"). The purpose of the ORSA is for the Society's Board to identify the risks the Society faces, on a forward-looking basis, and then to identify how it will need to manage its capital resources in the light of these threats. This analysis enables the Board to derive a strategic plan which will lead to improved member benefits, but which does not over stretch the financial resources and risk a future insolvent position.

We are pleased to report that our 2019 ORSA was successfully completed, with the involvement of the whole Board, and that we are satisfied we are pursuing appropriate forward-looking business strategies.

At the time of preparing the Directors' Report, the Society has started work on the ORSA because of the economic downturn caused by the Covid-19 pandemic and in consideration of the Society's sickness and lapses uncertainty as a result of the outbreak. The ORSA will include an assessment of the immediate and prospective actions the Society could take to ensure solvency levels remained positive and further strengthened if required.

Conduct Requirements

The Solvency II Directive set a wide range of standards and requirements for how governance should be undertaken in insurance businesses across the European Union. Both the PRA and the FCA have now implemented these requirements in a far-reaching way across our industry alongside the Senior Manager & Certification Regime.

The regime is designed to ensure that the senior people, on the Board and within the company as senior management function holders, meet defined high standards of behaviour, and that they have an individual duty of responsibility to manage the business in a prudent and ethical manner. Senior managers and directors holding roles captured within this regime are individually accountable, and can be held personally liable for business failures if they cannot demonstrate that they have taken reasonable steps to perform to the standards expected.

To achieve this, individuals must be fit and proper people when recruited, and must be assessed on an on-going basis as fit, proper and competent in respect of their defined roles and responsibilities.

We are pleased to confirm that the assessment processes followed within the Society, both for the Board and the individuals concerned, evidence that all persons involved in governance of the Society have remained fit, proper and competent persons during the year.

The Board is pleased to confirm that the Society has satisfied prudential and regulatory standards applicable to it, and that all Senior Manager Function Holders and other Key Function Holders have remained fit, proper and competent persons throughout the year.

Corporate Governance

Board Committee Reports

Governance oversight of all the Society's activities is conducted through a number of Board Committees which are each chaired by an independent non-executive director, and with a majority of independent non-executive directors needed for a committee quorum.

Committee	Independent Chairperson
Audit Committee	Simon Pashby
Board Risk Committee	Nemone Wynn- Evans
Fair Members Benefit Committee	Cameron Mills
Nominations and Governance Committee	Joanne Hindle
Remuneration Committee	Mark Myers

A brief summary is given below of the most significant governance work conducted by these Committees throughout 2019.

Audit Committee

Key Responsibilities

The primary responsibilities of the Audit Committee is to:

1. deliver independent oversight of the preparation of the financial statements;
2. monitor and review the effectiveness of internal systems and controls;
3. review the effectiveness of internal audit and its reports on an ongoing basis; and
4. assess the performance and independence of the external auditors and manage the process for any external audit tenders.

The full Terms of Reference can be found on the Society's website.

Committee Membership

The qualifications of each member of the Committee are included in their biographies on pages 14 to 15. The Board is satisfied that the Chair, Simon Pashby has competence in accounting and auditing.

There were five meetings in the year as follows:–

	13 Feb	19 Mar	9 July	10 Sept	5 Nov
S Pashby (Chairman and non-executive director)	✔	✔	✔	✔	✔
N Wynn-Evans (non-executive director)	✔	✔	✔	✔	✔

An additional meeting was held on 15 August 2019 specifically to deal with prospective audit firms' presentations as part of the tender process to select the statutory external auditors for financial years ending 31 December 2020 onwards (see on the next page).

Board Committee Reports

Significant matters considered by the Committee in 2019

2018 Annual Report and Financial Statements

The table below highlights the significant matters in relation to the 2018 financial statements considered by the Committee during the year and how they were addressed.

Significant matters considered	How the matter was addressed by the Committee
Technical provision valuations methods and assumptions for the 2018 Annual Report and Financial Statements	As it is a significant risk area, the Committee received papers from the Chief Actuary detailing the technical provision valuations as at 31 December 2018. The Committee considered the reliability and accuracy of the valuation results, and its underlying assumptions and data. The Committee was satisfied that the valuations were appropriate having also considered the views of the external auditors.
Valuation of non-listed investment assets for the 2018 Annual Report and Financial Statements	The Committee considered the valuation of non-listed investments, in particular the investment in Life's Great Limited and the investment property held by the Group. The Committee concluded that the valuations were reasonable having reviewed the valuations including additional disclosures, and having regard to the external auditor's independent assurance of the valuation assumptions.
Approval of the 2018 Annual Report and Financial Statements	In March 2019, the Committee reviewed and approved the 2018 Annual Report and Financial Statements for the Group and the Society. This included reviewing key accounting judgements and assessing the appropriateness of the going concern assumption. The Committee ensured the annual report and financial statements were fair, balanced and understandable before recommending them to the Board for approval. In September 2019, the Committee also reviewed and recommended to the Board for approval the 2018 financial statements for Financial Advice Network Limited.

External Audit

For the financial year ending 31 December 2019, BDO LLP were appointed as external auditors at the Society's AGM in June 2019, following the merger with of Moore Stephens LLP with BDO LLP in February 2019. The Committee monitors the independence and objectivity of the external auditors. The Committee reviewed the policy for non-audit services and agreed that any engagement for non-audit services requires pre-approval of the Committee to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In 2019, the external auditors did not provide non-audit services.

As the Group is considered a "Public Interest Entity" and to maintain auditor's independence, the Committee is required to put out the external audit contract to competitive tender once 10 years is provided, with the possibility of re-appointing the same firm for up to a further 10 years maximum. Although Moore Stephens LLP merged with BDO LLP in February 2019, the merger did not supersede the requirement for the Society to carry out a competitive tender for the financial year ending on or after 31 December 2020 because Moore Stephens LLP have been the external auditors since 2010. The Audit Committee completed the tender in 2019 in advance of the financial year ending 31 December 2020.

The Audit Committee invited a number of audit firms to tender and having considered the submitted written proposals, three firms were selected to present to the selection panel. Through the rigorous and thorough selection process, the Audit Committee recommended to the Board that BDO LLP is appointed as external auditors for the financial year ending on or after 31 December 2020. BDO LLP is still subject to re-appointment annually at the Society's Annual General Meeting.

Internal Audit

The Committee considered regular reports from Internal Audit on the effectiveness of the Group's control environment and the Committee was provided assurance over the effectiveness of internal controls. Additionally, the Committee reviewed the Internal Audit plan for 2020 - 2022 and agreed with the proposed scope. The scope will be regularly assessed in light of emerging risks.

Other significant matters

Other significant matters considered during 2019:-

1. Reviewed the 2018 Money Laundering Reporting Officer's Report for the Society and its subsidiary; and
2. Reviewed the 2018 Corporation Tax computations for the Society and its subsidiary.

Corporate Governance

Board Committee Reports

Board Risk Committee

Key Responsibilities

The main purpose of the Board Risk Committee is to deliver independent oversight of the risk management framework used by the Society to identify and manage the risks it faces.

The full Terms of Reference can be found on the Society's website.

Committee Membership

There were five meetings in the year as follows:-

	14 Feb	27 Mar	10 July	27 Sept	5 Nov
Nemone Wynn-Evans (Chairperson and non-executive director)	✔	✔	✔	✔	✔
Simon Pashby (non-executive director)	✔	✔	✔	✔	✔
Cameron Mills (non-executive director)	-	✔	✔	✔	✔
Justine Morrissey (executive director)*	✔	✔	✔	✔	-

*Individuals were committee members for part of 2019 and therefore attendance was not required for some of the meetings in the year.

Significant matters considered by the Committee

Significant items considered during 2019:-

1. Reviewed and drove improvements to the 2019 ORSA strategy and reporting with recommendation of approval to the Board having considered updates to principal risks and emerging risks, and management actions to manage the impact of those risks on the Society;
2. Reviewed the specific risk sections of the 2019 SFCR and Annual Report to ensure the quality and content are consistent with the ORSA and recommended Board approval after amendments are made as requested by the Committee;
3. Drove the continuous development of risk information received by the Committee and the Board to enable effective oversight of the Society's risks and the Committee's ability to understand and manage risks;
4. Considered the appropriateness of the Standard Formula used for 2019 Solvency II actuarial valuations;
5. Reviewed the Society's risk management framework and recommendation to the Board for approval;
6. Reviewed the 2019 Financial Condition Report and management action plan with consideration to the ORSA;
7. Provided close focus on solvency risks, risks from new products that included the fixed rate bond and the Society's investment strategy, and horizon scanning of emerging risks; and
8. Provided assurance to the Board, on the switch of investment managers to RLAM, the Committee's understanding of RLAM's risk management practices in relation to our investment portfolio and the corresponding impact on our market SCR.

Corporate Governance

Board Committee Reports

Fair Members Benefit Committee

Key Responsibilities

The purpose of the Fair Members Benefit Committee is to make recommendations to the Board to ensure that fair outcomes are achieved for all members and policyholders, in particular with-profits members, having regard to their characteristics and fair expectations. The Committee also monitors compliance with all aspect of the FCA rulebook applicable to with-profits business.

The full Terms of Reference can be found on the Society's website.

Committee Membership

The Board is satisfied that the Chair, Cameron Mills (previously Geoff Ross) has relevant experience of with-profits business.

There were four meetings in the year as follows:-

	18 Mar	8 July	9 Sept	5 Nov
Geoff Ross (Chair and non-executive director until 17 June 2019)*	✔	-	-	-
Cameron Mills (non-executive director and from 17 June 2019, Chair of the committee)	✔	✔	✔	✔
Roger Turner (non-executive director)*	✔	-	-	-
Mark Myers (non-executive director)*	-	✔	✔	✔
Justine Morrissey (executive director)*	✔	✔	✔	-
Nasrin Hossain (executive director)	✔	✔	✔	✔

*Individuals were committee members for part of 2019 and therefore attendance was not required for some of the meetings in the year.

Significant matters considered by the Committee

Significant items considered during 2019:-

1. Reviewed the With-Profits Actuary reports on PPFM compliance and the exercise of discretion in 2018;
2. Reviewed the With-Profits Actuary and Board reports to with-profits policyholders;
3. Considered and recommended to the Board the bonus rates in respect of 2018 for "Holloway" plans;
4. Reviewed the 2019 Financial Condition Report;
5. Initiated a review of the PPFM to ensure it better reflects the Society's business environment and the way in which the Society operates, and reviewed the proposed changes;
6. Considered and recommended to the Board the bonus rates in respect of 2019; and
7. Considered and provided appropriate challenge on the Society's investment strategy to ensure it meets the members' needs.

Corporate Governance

Board Committee Reports

Nominations and Governance Committee

Key Responsibilities

The Nominations and Governance Committee is responsible for independent oversight of the how the Society selects, develops and plans succession for all senior managers and all Board members, and to assist and advise the Board in exercising its governance responsibilities.

The full Terms of Reference can be found on the Society's website.

Committee Membership

There were four meetings in the year as follows:-

	31 Jan	8 July	9 Sept	5 Nov
Joanne Hindle (Chair and non-executive director)	✔	✔	✔	✔
Roger Turner (non-executive director)*	✔	-	-	-
Mark Myers (non-executive director)*	-	✔	✔	✔
Simon Pashby (non-executive director)	✔	✔	✔	✔

*Individuals were committee members for part of 2019 and therefore attendance was not required for some of the meetings in the year.

Significant matters considered by the Committee

Significant items considered during 2019:-

1. Reviewed the 2018 CPD records for the Board and agreed the approach for 2019;
2. Considered the 2018 board assessments that was undertaken by an external facilitator and prepared an action plan for Board approval;
3. Reviewed the CPD records, Fit and Proper Assessments and Conflicts of Interests Declarations of all SMF function holders;
4. Reviewed the Terms of Reference for all Board Committees and the Board Manual;
5. Considered the Statements of Responsibility in light of the appointment of new executive directors in the year;
6. Initiated discussions on climate change and the Society's plan on managing the financial risks as a result of climate change;
7. Reviewed and approved changes to the Board Diversity Policy; and
8. Considered and approved the nomination of the Chief Actuary as a Board Member.

Corporate Governance

Board Committee Reports

Remuneration Committee

Key Responsibilities

The Remuneration Committee is responsible for the independent assessment of appropriate market competitive levels of remuneration to ensure the Society recruits and retains staff of the necessary quality. It also designs the overall remuneration package for the Chief Executive Officer.

The full Terms of Reference can be found on the Society's website.

Committee Membership

There were four meetings in the year as follows -

	31 Jan	8 July	9 Sept	5 Nov
Roger Turner (Chair and non-executive director until 17 June 2019)*	✔	-	-	-
Mark Myers (Chair and non-executive director from 17 June 2019)*	-	✔	✔	✔
Joanne Hindle (non-executive director)	✔	✔	✔	✔
Simon Pashby (non-executive director)	✔	✔	✔	✔

*Individuals were committee members for part of 2019 and therefore attendance was not required for some of the meetings in the year.

Significant matters considered by the Committee

Directors' Remuneration

The Committee reviewed and approved the remuneration of the Chief Executive and the other directors for 2019. The details of the remuneration for the directors in 2019 are set out in the Directors' Remuneration Report on pages 29 to 30.

Gender Pay Gap

The Society promotes diversity of employees by hiring people of all ages, genders and ethnicities. We strongly encourage and try our best to endorse gender equality in all aspects of the business, including pay. Therefore, although not required by law, the Society has taken the initiative to analyse our gender related pay and to identify any potential issues.

In prior year, the Society's gender pay analysis revealed a positive picture and that there is balanced distribution between the pay of men and women. The 2019 analysis highlighted some areas which the Society could improve, in particular female staff employed at senior management roles despite having four female directors. As such, the Society signed up to the Women in Finance Charter in November 2019 which demonstrates the Society's commitment to gender diversity at senior management. The Society will be working through its pledges throughout 2020 which should result in more positive outcomes by the end of the next financial year.

Other significant matters

Other significant matters considered during 2019:-

1. Reviewed and considered an independent external report and recommendations on the Society's staff remuneration policy, and considered Management's proposals to implement changes; and
2. Reviewed and approved the remuneration policy applicable to the Chief Executive and the other directors for 2020.

Corporate Governance

Directors’ Remuneration Report

The Remuneration Committee is providing this Report in accordance with the Friendly Societies Act 1992 in respect of remuneration for the Executive and Non-Executive Directors of the Society. The Board have approved the Remuneration Policy which is implemented and governed by the Remuneration Committee which consists of independent Non-Executive Directors.

Remuneration Policy

The Society’s remuneration policy rewards both corporate and individual performance as well as providing a competitive package to attract and retain high calibre individuals. The policy complies with the requirements of the European Solvency II Directive and all relevant regulatory obligations. We will comply with good corporate governance practice as well as relevant principles of the AFM Code.

The principles of the policy are to ensure that remuneration is closely linked to the Society’s objectives of:

1. putting members at the heart of what we do and treating them fairly;
2. promoting appropriate culture and behaviours including openness, clarity & simplicity;
3. promoting sound risk management & eliminating incentives towards excessive risk taking;
4. ensuring the contribution of staff to achieving strategic goals is fully recognised; and
5. achieving equity, fairness and consistency in the operation of rewards policies and practices.

Executive Directors’ Remuneration

The Remuneration Committee is responsible for recommending the remuneration package of the CEO to the Board. The Remuneration Committee is responsible for approving recommendations from the CEO regarding the remuneration package for senior executives and ensuring that they comply with the principles of the policy. The CEO is responsible for setting the remuneration of all other staff in line with the principles of this policy. The components of the Executive Directors’ remuneration are described below.

Salary

The salary level is set commensurate with that of similar sized businesses in our sector, and to reflect the skills and experience of the individual. The salary is competitively pitched based on an annual bench marking exercise.

Performance Bonus

The Executive Directors can earn an annual bonus following the successful achievement of performance targets that are set to ensure the strategic objectives of the Society are achieved. Targets are quantifiable measures linked to financial, corporate, governance and culture related objectives. The potential bonus has a maximum of 30% of basic salary. The targets are monitored at various intervals during the financial year and the final calculations are based principally on the performance of the Society measured against the agreed targets and recommended for approval by the Remuneration Committee to the Board.

Pension

The Executive Directors participate in the Group’s defined contribution pension scheme.

Benefits in kind

The Executive Directors are provided with private healthcare insurance.

Corporate Governance

Directors' Remuneration Report

Non-Executive Directors' Remuneration

The fees of the Non-Executive Directors are agreed by the Board and reviewed by the Remuneration Committee on an annual basis. The fees are based on current market rates and the level of time commitment required to fulfil their duties.

Our policy is that no element of the remuneration of Non-Executive Directors is performance related. The Non-Executive Directors stand for election annually on the basis that their prior year performance has been assessed as satisfactory by the appraisal system applicable to them.

Board Remuneration 2019 (audited)

Name	Salary £	Bonus £	Pension Supplement £	Other Benefits[5] £	Total 2019 £	Total 2018 £
EXECUTIVES						
A M O'Dea	208,577	62,573	27,511	1,332	**299,993**	279,875
N Hossain[3]	43,675	8,735	4,003	669	**57,082**	-
S Chivers[3]	52,469	10,494	4,198	382	**67,543**	-
K Harris[1]	50,469	15,129	5,433	827	**72,070**	172,171
J Morrissey[2]	204,998	-	12,409	1,191	**218,598**	200,173
	560,400	**96,931**	**53,554**	**4,401**	**715,286**	**652,219**
NON-EXECUTIVES						
J Hindle	51,250	-	-	3,850	**55,100**	47,714
N Wynn-Evans	33,534	-	-	1,747	**35,281**	33,544
S Pashby	28,359	-	-	29,902	**31,261**	28,204
C Mills[4]	28,359	-	-	1,969	**30,328**	-
M Myers[3]	15,452	-	-	1,977	**17,429**	-
G Ross[1]	15,735	-	-	2,486	**18,221**	35,549
R Turner[1]	11,816	-	-	2,165	**13,981**	30,471
	184,505	-	-	**17,096**	**201,601**	**175,482**
Total	**744,905**	**96,931**	**53,554**	**21,497**	**916,887**	**827,701**

1 Stepped down from the Board with effect from 17 June 2019. 2 Following Mrs Morrissey departure with effect from 18 October 2019, the Committee agreed an additional payment of £30,000 that reflected her contributions to the Group and the Society. 3 Appointed to the Board on 17 June 2019. 4 Co-opted to the Board on 1 January 2019 and appointed at the AGM on 17 June 2019. 5 Executive Directors receive private medical cover as a taxable benefit. Non-Executive Directors receive expenses for travel to and from Board meetings at the Group's Head Office. Benefits are taxed through PAYE.

Mark Myers
Chairman - Remuneration Committee
30th April 2020

Independent Auditor's Report to the Members of The Shepherds Friendly Society Limited

Opinion

We have audited the financial statements of The Shepherds Friendly Society Limited (the 'Society') and its subsidiaries (together the 'Group') for the year ended 31 December 2019 which comprise the Society statement of comprehensive income, the Group statement of comprehensive income, the Society statement of financial position, the Group statement of financial position and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2019 and of the Group's and Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

Independent Auditor's Report to the Members of The Shepherds Friendly Society Limited

Area of focus	Work performed to address this risk	Conclusion of findings
Valuation of technical provisions **Note 2(r) and Note 19** As at 31 December 2019 the Group and Society recognised a net Long Term Business Provision and Technical Provision for Linked Liabilities ('Technical Provision') of £66.2m (2018: £49.7m) prepared in line with the accounting policy on Long Term Business Liabilities. Technical Provisions are calculated using policy data held on the Society's administration system and assumptions set using internal and external data as inputs to the actuarial valuation models. The assessment of the appropriate carrying value of the technical provisions requires management to make significant judgements when determining the underlying assumptions. These judgements involve considering whether the assumptions appropriately reflect the Society's circumstances, historic experience and future expectations. We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's and Society's results and because of the assumptions underpinning the calculation, which can be highly subjective.	In assessing the valuation of the Technical Provision, we performed the following procedures: • We utilised an independent actuary to report to us on the methodology and assumptions underpinning the calculation of the provision and the accuracy of the calculation itself. • We reviewed and confirmed the independence and expertise of our and the Society's actuarial experts. • We compared the actuarial reports prepared by the Society's actuary and our reviewing actuary and checked that all relevant judgements and estimates in the Society's calculation have been considered and appropriately challenged in forming our opinion. • We reviewed and assessed changes to assumptions used in the calculation as compared to the previous period, considering whether these were reasonable and in line with acceptable parameters based on our independent actuary's assessment. • We agreed a sample of the policy data provided to the actuaries to underlying policy data held on the Society's administration system to check that the calculations are based on accurate underlying information. • We agreed, as part of the new business controls test, that application details agreed to the members system, checking the underlying policy data is accurately recorded.	Overall, based on the assumptions and methodology used at 31 December 2019, we consider the technical provisions recognised by the Society within its financial statements to be reasonable.

Independent Auditor's Report to the Members of The Shepherds Friendly Society Limited

Area of focus	Work performed to address this risk	Conclusion of findings
Investment valuation **Notes 2j-m and 13** As at 31 December 2019 the Group and Society recognised £87.5m (2018: £72.4m) of investment holdings at fair value (excluding subsidiary investments) comprising: a) Land and buildings of £0.9m (2018: £1.9m) b) Other financial investments of £86.6m (2018: £67.0m) of which £38.2m (2018: £32.4m) is held to cover linked liabilities. c) Investment in unquoted equities of nil (2018: £1.2m) which were fully impaired in the year. The land and buildings were leased to a body which went into administration in September 2019 and were subsequently acquired by a body with which lease negotiations are taking place. The valuation basis has been reviewed to reflect this. Fluctuations in market value impact other financial investments and we therefore determined investment valuations to be a key audit matter.	In auditing the valuation of these investments we have conducted the following by investment type: **a) Land and buildings** - Consulted with the specialist BDO property valuations team on the nature of the revised existing use value basis of valuation adopted. - Reviewed and confirmed the independence and expertise of the Society's external valuer. - Consulted with a BDO internal valuation expert on the reasonableness of the basis of valuation and challenged the key assumptions adopted through comparison of rental yields to independent indices. - Reviewed the independent valuation report obtained by management and challenged both the competence of the valuer and the key assumptions adopted. - Compared key rental yield assumptions to independent indices. **b) Other financial investments** - Obtained a detailed analysis of the Society's share of pooled investments on a look through basis under solvency reporting in order to support the top level pooled fund values disclosed in the accounts. - Obtained direct confirmation of amounts held from the asset manager. - Compared the market value of investments to third party information. - Reconciled movement in valuation during the year including as a result of portfolio change and sample tested additions and disposals including gains on realisation arising from this to third party market prices and ultimate receipts in order to support this. **c) Investment in unquoted equities** Reviewed and challenged the rationale for the impairment of the investment in unquoted equities including assessment based on trading performance of the body and its audit status.	Based on the procedures carried out we consider that the valuations recognised in the financial statements are reasonable.

Independent Auditor's Report to the Members of The Shepherds Friendly Society Limited

Area of focus	Work performed to address this risk	Conclusion of findings
Going concern **Notes 2(b), 5(b) and 23** Following the year end the Covid-19 virus has hit the UK and may have a significant impact on the business of the Society, being the provision of life income protection products. This impact is not limited to significant uncertainty and a fall in the value of the investment markets but also an, as yet, unquantified impact on claims on the Society. Management have concluded that the Society remains a going concern at the date of signing these financial statements. The Society has adequate current coverage of the Solvency Capital Requirement (SCR) and stress testing of the Solvency position results in the Society remaining able to meet its Minimum Capital Requirement (MCR), prior to the implementation of management actions, such as reduction in bonuses. The stress scenarios have considered the combined incidence of significant stock market fall, increased morbidity experience, increased expenses and mass lapse. Due to the potential significance of this event we consider this to be a key audit matter.	In assessing the going concern status of the Society, we reviewed and considered the following: • Budgets and projections of the Society, including reworked solvency positions prior to signing for the 12 months from the date of approval of the financial statements. We considered the impact of Covid-19 on these budgets and management's assessment of these. We have also considered the updated solvency position (SCR) at the date of signing and checked that the investment market falls in the post balance sheet period are reflected. • The Own Risk and Solvency Assessment (ORSA) of the Society and the stress tests included therein, to check that the Society has considered appropriate stressed scenarios and that it remains able to meet its regulatory capital requirements.	Our key observations are set out in the conclusions related to going concern section of our audit report.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgement, we determined materiality for the financial statements as a whole to be £400,000 (2018: £394,000). The principal determinant in this assessment was the Group's and Society's net assets, which we consider to be the most relevant benchmark, as it reflects the underlying interests of the Members of the Group. Our materiality represents 2.3% (2018: 1.7%) of this number.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £300,000 (2018: £295,500) which represents 75% (2018: 75%) of the above materiality level.

We have agreed with the Audit Committee that we shall report to them any misstatements in excess of £8,000 (2018: £19,750) that we identify through the course of our audit. We also agreed to report misstatements below this threshold that in our view, warrant reporting on qualitative grounds.

Independent Auditor's Report to the Members of The Shepherds Friendly Society Limited

An overview of the scope of the audit

The audit of the Group financial statements includes the audit of the Society. Its subsidiaries (Financial Advice Network Limited and Financial Advice Website Limited) are exempt from audit under a parental guarantee. For Group reporting purposes, the subsidiaries are considered immaterial and hence there was only one significant component being the Society itself. The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed external actuarial experts.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of technical provisions which are subject to management judgement and estimation.

Capability of the audit to detect irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Friendly Societies Act 1992, PRA and FCA rules, FRS 102 and FRS 103.

We obtained our understanding through internal and external training, and the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations that could give rise to a material misstatement in the Group and Society's financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the PRA and FCA; and
- review of the Group and Society's compliance plan, annual MLRO report, breaches register and Internal Audit reports.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report of the Board and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report to the Members of The Shepherds Friendly Society Limited

Responsibilities of directors

As explained more fully in the Statement of Responsibilities of the Board of Directors, set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the Financial Reporting Council's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee we were reappointed by the Board at the Annual General Meeting on 17 June 2019 to audit the financial statements for the year ended 31 December 2019. The period of total uninterrupted engagement including previous renewals and reappointments of the firm within the network is 10 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and Society and we remain independent of the Society in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Society's Members, as a body, in accordance with Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Alexander Barnes

Alexander Barnes
Senior Statutory Auditor
4th May 2020

For and on behalf of
BDO LLP
Statutory Auditor
London, UK

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement Of Comprehensive Income for the year ended 31 December 2019

INCOME	Notes	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Technical account - Long term business					
Earned premiums, net of reinsurance					
Gross premiums written	7	23,571	18,780	23,571	18,780
Outward reinsurance premiums		(857)	(3)	(857)	(3)
Net premiums		22,714	18,777	22,714	18,777
Investment income					
Land and buildings	8	157	235	157	235
Other investments	8	469	1,159	497	1,198
Gains/(Losses) on realisation of investments	8	3,402	(727)	3,402	(727)
Unrealised (losses)/gains on investments	8	2,182	(5,438)	2,182	(5,438)
		6,210	**(4,771)**	**6,238**	**(4,732)**
Other technical income	2(h)	392	396	-	-
Total technical income		**29,316**	**14,402**	**28,952**	**14,045**

EXPENDITURE	Notes	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Claims incurred, net of reinsurance					
Claims paid - net amount	19(a)	14,025	10,797	14,025	10,797
Change in the provision for claims	19(a)	154	672	154	672
		14,179	**11,469**	**14,179**	**11,469**
Changes in technical provisions, net of reinsurance					
Movement on long-term business provision net of reinsurance	19(a)	3,873	(3,627)	3,873	(3,627)
Movement on provision for Linked Liabilities Investment Contracts	19(b)	5,662	(3,602)	5,662	(3,602)
Movement on other technical provisions	19(c)	95	-	95	-
		9,630	**(7,229)**	**9,630**	**(7,229)**
Net operating expenses					
Other operating expenses	9	11,475	10,614	11,475	10,614
Investment expenses		59	73	59	73
		11,534	**10,687**	**11,534**	**10,687**
Other technical charges	2(h)	361	343	-	-
Tax on other technical net income	12	(7)	2	-	-
Total technical expenditure		**35,697**	**15,272**	**35,343**	**14,927**
(Deficit)/Excess of income over expenditure		(6,381)	(870)	(6,391)	(882)
Transfer from/(to) Fund for Future Appropriations	18	6,381	870	6,391	882
Balance on technical account - long term business		-	-	-	-
Other comprehensive income:					
Items that will not be reclassified to technical account					
Actuarial (loss)/gain on pension scheme	22	(85)	(293)	(85)	(293)
Transfer from/(to) Fund for Future Appropriations	18	85	293	85	293
Total other comprehensive income for the year		-	-	-	-

All income and expenditure relates to continuing operations of the Group and the Society. The attached notes on pages 39 to 63 form part of these financial statements.

Statement of Financial Position as at 31 December 2019

ASSETS	Notes	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Investments					
Land and buildings	13(a)	881	1,881	881	1,881
Investment in Subsidiaries	13(c)	-	-	500	500
Investment in Associate	13(d)	-	1,175	-	1,175
Other Financial Investments at fair value	13(b)	48,391	34,675	48,391	34,675
		49,272	37,731	49,772	38,231
Assets Held to Cover Linked Liabilities	13(b)	38,220	32,364	38,220	32,364
		87,492	**70,095**	**87,992**	**70,595**
Debtors: amounts receivable within one year					
Debtors arising out of direct insurance operations	14	21	29	21	29
Debtors arising out of reinsurance operations	14	20	-	20	-
Other debtors	14	343	450	752	667
Debtors: amounts receivable after more than one year					
Loan to Associate	15	-	2,313	-	2,313
		384	**2,792**	**793**	**3,009**
Other assets					
Tangible assets	16	435	482	435	482
Intangible assets	17	322	340	322	295
Cash at bank and in hand		1,602	1,784	645	1,020
		2,359	2,606	1,402	1,797
Prepayments and accrued income		269	348	231	335
Long Term Business Provision for protection benefit	19(a)	41,526	38,679	41,526	38,679
Reinsurers' share of technical provisions	19(a)	6,646	-	6,646	-
Total Assets		138,676	114,520	138,590	114,415

LIABILITIES	Notes	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Fund for future appropriations	18	**17,196**	**23,662**	**17,190**	**23,666**
Technical provisions					
Long Term Business Provision for benefits excluding protection	19(a)	68,385	55,019	68,385	55,019
Technical provisions for linked liabilities - Investment Contracts	19(b)	38,220	32,364	38,220	32,364
Other technical provisions	19(c)	10,998	-	10,998	-
Claims outstanding		1,166	1,012	1,166	1,012
		118,769	**88,395**	**118,769**	**88,395**
Creditors					
Creditors arising from direct insurance operations		46	49	46	49
Other creditors, including taxation and social security	20	960	1,003	888	909
		1,006	1,052	934	958
Accruals and deferred income		1,128	876	1,120	861
Pension scheme liability	22	577	535	577	535
Total Liabilities		138,676	114,520	138,590	114,415

The attached notes on pages 39 to 63 form part of these financial statements.

The financial statements on pages 37 to 63 have been approved by the Board on 30th April 2020.

J Hindle Chairman

A M O'Dea Chief Executive Officer

Notes to the Financial Statements For the year ended 31 December 2019

1. General Information

Shepherds Friendly is a trading name of The Shepherds Friendly Society Limited ("the Society") which is an incorporated friendly society under The Friendly Societies Act 1992 Registered No. 240F and a member of the Association of Financial Mutuals. The Society is authorised by the Prudential Regulation Authority (PRA), and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It is incorporated in the United Kingdom, and its principal place of business is its registered office: Haw Bank House, High Street, Cheadle, SK8 1AL. The Society has two wholly owned subsidiaries, together "the Group". The principal activities of each company in the Group are detailed in the Directors' report on page 16.

2. Significant Accounting Policies

(a) Basis of Preparation

The Group and individual financial statements of The Shepherds Friendly Society Limited ("the Society") have been prepared in accordance with Financial Reporting Standard ("FRS") 102 and FRS 103 as issued by the Financial Reporting Council and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 ("the Regulations"). The Society meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken by the Society in relation to presentation of a cash flow statement, disclosures for remuneration of key management personnel and disclosures for related party transactions between members of the Group.

The Society, being a mutual life assurance company, is also exempt from the requirements under FRS 102 to produce a group cash flow statement.

In accordance with FRS 103 Insurance contracts, the Group and the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgement in the process of applying the accounting policies selected for use by the Group and the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

The financial statements are presented in sterling which is the functional currency of the Society and the Group, and rounded to the nearest £'000.

(b) Going Concern accounting policy

There are uncertainties caused by the Covid-19 virus outbreak in 2020 that will result in temporary but potentially significant impact to the Society's investments, insurance exposure, income from new business and operations. As the situation is rapidly evolving, it is impracticable to fully quantify the financial impact of these risks but at the present time they are less severe across the key variables than the most severe stress scenarios run by the Society. After making enquiries of management actions to manage these risks that includes operational cost savings and taking into consideration the capital and liquidity position of the Society under more severe stress scenarios, the Directors have a reasonable expectation that the Group and the Society have adequate resources to continue in operational existence for the foreseeable future. The Group and the Society therefore continues to adopt the going concern basis in preparing its financial statements.

(c) Basis of Consolidation

Subsidiaries are entities controlled by the Group by virtue of the Society owning more than 50% of the voting power of the entity.

An associate is an entity over which the Group has significant influence but not control, generally accompanying an ownership interest of more than 20%.

The financial statements of the Group comprise the assets, liabilities, and income and expenditure account transactions of the Society and its subsidiaries. The activities of the Society and its subsidiaries are accounted for in the Statement of Comprehensive Income. The on-going results of the trading subsidiary, Financial Advice Network, are included with Other Technical Income and Other Technical Charges. The net results are included in the Fund for Future Appropriations for the Group. Intragroup balances, transactions and unrealised gains and losses on intragroup transactions are eliminated in full.

(d) Contract Classification

The Group classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by the policyholder to receive additional payments as a supplement to guaranteed benefits:

- that are likely to be a significant portion of the total contractual payments; and
- whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
  - the performance of a specified pool of contracts, or a specified type of contract, or
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company that issues the contract.

Notes to the Financial Statements
For the year ended 31 December 2019

2. Significant Accounting Policies (continued)

(d) Contract Classification (continued)

Such contracts that have a discretionary participation feature are more commonly known as 'with-profits' or 'participating' contracts.

The Group has carried out its assessment by considering homogenous product classes rather than reviewing individual contracts as each class has common product features including levels of insurance risk. Under our assessment, investment products listed in Note 6 have been classified as "participating investment contracts". Our unit-linked products and fixed rate bond are classified as "non-participating investment contracts".

The contract classification has been determined by assessing contracts at inception as required under FRS 103.

(e) Earned Premiums

Insurance Contracts and Participating Investment Contracts

Regular premiums on long-term insurance and participating investment contracts are recognised as income when due for payment. For single premium business, recognition occurs on the date from which the policy is effective. Reinsurance premiums payable are accounted for when due for payment.

Non-participating Investment Contracts
Premiums relating to non-participating investment contracts are not recognised in the Technical Account but are recorded as contributions to the investment contract liabilities in the Statement of Financial Position.

(f) Investment Income

Investment income includes dividends, interest, rents, and realised and unrealised gains or losses on investments. They are all included on an accruals basis except for realised gains and losses, which are included as the difference between the net sale proceeds and the original cost of purchase. Unrealised gains and losses are calculated as the difference between the valuation of the investments at the Statement of Financial Position date and the valuation at the last Statement of Financial Position date or the cost of purchase.

(g) Claims and Benefits

Insurance Contracts and Participating Investment Contracts

Maturity claims and regular annuity payments are accounted for when due for payment. Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long-term business provision.

Death claims and claims for sickness are accounted for when notified. The value of claims on participating contracts includes bonuses paid or payable. Claims values include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for expected value of recoveries. However it is likely that the final outcome will prove to be different from the original liability established.

Provisions are adjusted at the Statement of Financial Position date to represent an estimate of the expected outcome.

Non-participating Investment Contracts
Amounts payable on withdrawals, maturities and surrenders of non-participating investment contracts are accounted for as deductions from the carrying value of the liability in the Statement of Financial Position.

(h) Other Technical Income and Other Technical Charges

Other technical income and charges in the Group refers to income and expenditure incurred by the trading subsidiary, primarily commission income and the cost of administering the network.

(i) Taxation

The Board has considered its attitude to taxation and the strategies in place in this respect.

As a Friendly Society, the Society is not subject to corporation tax on any surplus it generates for its members. The Society is though subject to policyholder tax on the net investment return generated on part of its life and endowment business, which is levied at the income tax rate of 20%.

Taxes are provided for in respect of the taxable element in the Group's business at tax rates enacted or substantively enacted at the date of the Statement of Financial Position.

(j) Investment Land and Buildings

Investment land and buildings, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of the Investment land and buildings are included in the Technical Account for the period in which they arise.

An external independent valuer, having appropriate recognised professional qualifications and current experience of the location and type of property being valued, conducts a full valuation of the Group's Investment land and buildings every 3-5 years. Fair values are based on market values. Market values are the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing. Where current prices cannot be established by reference to an active market, valuations are prepared by considering the aggregate of the estimated net cash flows to be received from renting the property. A yield that recognises the specific risks inherent in the net cash flows is then applied to the net annual rental cash flows to determine the value.

When a full valuation has not been conducted, a desktop valuation is used to determine the fair value.

Notes to the Financial Statements
For the year ended 31 December 2019

2. Significant Accounting Policies (continued)

(k) Financial Investments

Upon initial recognition, financial investments are classified as financial assets at fair value through profit or loss.

Assets held to cover investment liabilities are valued at the bid price quoted on the last day of the accounting period, which management believe is representative of fair value. For other financial investments, market observable inputs are used wherever possible. In the absence of an active market, estimation of fair values is achieved using valuation techniques that reference to recent arm's length transaction for identical assets.

A financial asset is de-recognised when the contractual rights to receive the cash flows from the asset have expired or when they have been transferred and the Group has also transferred substantially all of the risks and rewards of ownership.

(l) Investment in Associate

The investment in associate is measured at fair value because the investment is held as part of an investment portfolio. The changes in fair value are recognised through the Statement of Comprehensive Income.

Estimation of fair value is achieved using recent arm's length transactions.

(m) Investment in Subsidiaries

Investment in subsidiaries in the Society's financial statements is measured at cost less impairment.

(n) Tangible and Intangible Assets

Tangible and Intangible assets are capitalised and depreciated/ amortised by equal annual installments over their estimated useful life. The principal rates used for this purpose are as follows:

- Equipment is depreciated between two and four years.
- Fixtures & fittings are depreciated between four and eight years.
- Intangible website domain assets are amortised over ten years.
- Other intangible computer software is amortised between two and four years.
- Property Improvements associated with rental leases are amortised over the length of the lease.

(o) Loan to Associate

Loan is measured at amortised cost. The interest receivable is recognised as income on an accruals basis.

(p) Impairment of Assets

Assets, other than those measured at fair value, are assessed for indicators of impairment; any impairment loss is recognised in the Statement of Comprehensive Income.

(q) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, balances with banks and investments in money market instruments which are readily convertible, being those with original maturities of three months or less.

(r) Technical Provision

Long Term Business Provision
The long term business provision is determined by the Board on the advice of the Chief Actuary as part of the annual valuation of the Society's long-term business. The provision is determined in accordance with the requirements of the PRA rulebook: Solvency II Firms Technical Provisions Instrument 2015. The long term business provision on a Solvency II basis is calculated as the expected present value of the expected future cash flows (benefit payments and expenses less premiums) plus a risk margin. The risk margin allows for the cost to a third party of holding Solvency II capital until all the contracts are settled. The valuation rate of interest used to discount the expected future cash flows is prescribed by regulation.

When a homogeneous product class is expected to generate future cash inflows to the Society net of a risk margin, the provision for that product class is disclosed as an asset on the Statement of Financial Position.

Provision for Linked Liabilities
The provision for the unit linked liabilities is equal to the value of the assets to which the contracts are linked. The provision is measured on a basis consistent with the basis of valuing the corresponding assets, which is at fair value through profit of loss.

Other Technical Provision
The provision for fixed rate bonds issued is initially measured at fair value, being the consideration received. Subsequently, measurement is at amortised cost using the effective interest method.

(s) Reinsurance

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk on insurance contracts with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts set out in note 2(d) are classified as reinsurance contracts held.

Reinsurance assets represent short-term payments due from reinsurers. The reinsurers' share of technical provisions are longer term receivables that are dependant on the expected claims and benefits arising under the related reinsured insurance contracts. They are measured on a consistent basis to the reinsured insurance contracts.

(t) Pensions

The Group operates a defined contribution scheme for the majority of employees. Employer's contributions are based on a fixed percentage of basic salary. The employee's and employer's contributions are recognised as an expense in the Statement of Comprehensive Income as the related services are provided.

A defined benefit scheme is also in operation, although now closed to new entrants. The pension scheme closed to member contributions on 8 January 2018.

(t) Pensions (continued)

The pension scheme surplus or liability recognised in the Statement of Financial Position is the value of the scheme's assets less the present value of the scheme's liabilities. The scheme's liabilities are valued by an independent qualified actuary using the Projected Unit Method. The estimates of future cash outflows are discounted to present value using the discount rate based on AA rated corporate bonds. The overall expected return assumption of the scheme's assets is calculated as the weighted average of the individual expected return assumptions for each of the major asset classes.

Remeasurements are recognised in Other Comprehensive Income in the period in which they arise.

(u) Fund for Future Appropriations

The Fund for Future Appropriations represents the excess of assets over and above the long-term insurance contract liabilities and other liabilities. It represents amounts that have yet to be formally declared as bonuses for the participating contract policyholders together with the free assets of the Group or the Society. Any excess or deficit for the year arising through the Statement of Comprehensive Income is transferred to or from the Fund for Future Appropriations.

(v) Leases

Rentals payable on operating leases are expensed to the Statement of Comprehensive Income on a straight-line basis over the term of the relevant lease. Initial direct costs are expensed on a straight-line basis over the term of the lease.

(w) Foreign Currencies

During the year, the Group continued trading in the Republic of Ireland. Transactions in foreign currencies are recorded at the average rate for each month. Assets and liabilities held in foreign currencies are translated at the rate ruling at the Statement of Financial Position date. All differences are recognised in the technical account.

3. Critical Accounting Judgements and Estimates

(a) Judgements

The preparation of financial statements requires management to make judgements in the process of applying the Group's accounting policies. This is particularly relevant to the following:

(i) Contract classification
The classification of contracts on initial recognition requires an assessment of whether significant insurance risk has been transferred to the Group.

(b) Estimates

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances.

Actual results in the future could differ from such estimates. This is particularly relevant to the following:

(i) Valuation of Investment Land and Buildings
The investment land and buildings valuation contains a number of market standard assumptions upon which an independent, professionally qualified valuer has based their valuation of the Group's property.

(ii) Valuation of Group's financial assets and liabilities, including investment in associate held as part of an investment portfolio
The fair value measurement could include non-market assumptions in respect of level 3 assets and liabilities. Note 13(e) explains the assumptions used in the valuation of Level 3 assets.

(iii) Valuation of intangible assets
The valuation of intangible assets are based on assumptions over the life expectancy of the asset. These assumptions are reflected in the amortisation rate of the asset.

(iv) Long term business provisions
The valuation of participating contract liabilities and insurance liabilities are based upon assumptions and methodology that reflect the best estimate at the time. Note 6 sets out the assumptions underlying the valuations. The assumptions are based on recent observed experience to 31 December 2019.

A separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for expenses, lapse and surrender rates are based on product characteristics and relevant claims experience.

The assumptions used for discount rates are based on current European Insurance and Occupational Pensions Authority (EIOPA) specific risk-free rates, adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. Allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix are also made in arriving at the estimated ultimate cost of claims in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

Notes to the Financial Statements
For the year ended 31 December 2019

3. Critical Accounting Judgements and Estimates (continued)

(v) Pension scheme liabilities

Pension plan liabilities are based on appropriate valuation assumptions. These assumptions include an appropriate discount rate, the levels of salary escalation, price inflation and mortality rates. Further details are contained in note 22 to these financial statements.

4. Capital Management

The Group sets to create value for its members by investing in the development of the business whilst maintaining an appropriate level of capital available.

(a) Policies and Objectives

The Society's key management objectives are:

- To ensure the Society's strategy can be implemented and is sustainable;
- To ensure the Society's financial strength and to support the risks it takes on as part of its business;
- To give confidence to the policyholders and other stakeholders who have relationships with the Society; and
- To comply with the capital requirements imposed by its UK regulator, the PRA.

Details of the Society's objectives and its strategy to achieve them are provided in the Strategic Report on page 6.

These objectives are reviewed at least annually and benchmarks are set by which to judge the adequacy of the Society's capital. The capital position is monitored against those benchmarks to ensure sufficient capital is available to the Society.

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in the market conditions.

The capital requirement in the quarterly Solvency II return is the statutory capital requirement based on EU directives. Management intends to maintain capital in excess of the PRA's total requirements and to hold an appropriate additional margin over this to absorb changes in both capital and capital requirements. The Group complied with all externally imposed capital requirements to which it was subject throughout the reporting period.

(b) Capital Statement

The following summarises the capital resources and the requirements of the Society as determined for UK regulatory purposes. The Society is not required to provide a Solvency II capital calculation.

The capital statement below covers all of the Society's life assurance business. There are no specific constraints on the capital of the Society. As the Society has no shareholders, all capital belongs to its members.

	Society 2019 £'000	Society 2018 £'000
Fund for Future Appropriations	17,190	23,666
Regulatory Solvency Adjustments (note 4(d))	(1,940)	(891)
Total available capital resources (unaudited)	**15,250**	**22,775**

(c) Measurement and Monitoring of Capital

The Society's solvency position is regularly reviewed to ensure it maintains an acceptable level of solvency. The Society is able to change the rates of future annual and final bonuses it pays to its with-profits policyholders in the event that there is a large change in its available capital resource.

(d) Analysis of Capital Change

An analysis of the change in capital resources is set out below:

	2019 £'000	2018 £'000
Capital resources at 1 January	**22,775**	**24,195**
Changes in available capital due to:		
Model changes	(13,574)	(1,156)
Assumption changes	714	(418)
Investment returns not credited to policyholders	250	129
Policy movements	(10,945)	(936)
New business	10,457	6,081
Change in risk margin	7,105	(3,734)
Change in current liabilities	(1,258)	(1,402)
Change in pension scheme	(42)	(263)
Other	(232)	279
Capital resources as at 31 December	**15,250**	**22,775**

There has been a decrease in the available capital resources from 1 January 2019 to 31 December 2019. Over 2019, the Society undertook an exercise to strengthen the accuracy of the modelling used to estimate future cashflows on the Society's business. This was part of the Society's continued development of a robust infrastructure to help it achieve its business plans over the coming years. The effect of that exercise resulted in a downward adjustment to the value of the Society's income protection business and this is the main reason for the impact of model changes noted in the analysis above.

Notes to the Financial Statements
For the year ended 31 December 2019

5. Risk Management and Control

This note provides information on the main risks arising from financial instruments to which the Group and the Society is exposed and how they oversee these risks. The risk appetite for each type of principal risk is set based on the amount necessary to meet the PRA's capital requirements.

(a) Underlying Approach to Risk Management

The following key principles outline the Group's approach to risk management and internal control:

- The Board has responsibility for overseeing risk management.
- The Board Risk Committee handles a number of delegated functions on behalf of the Board.
- An open and receptive approach to solving risk problems is adopted by the Board.
- The Group makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks.
- Managers are responsible for encouraging good risk management practice.
- Identified key risk indicators are regularly reviewed and are closely monitored.

(b) Overview of Risk Identification, Assessment, Management & Mitigation Process

The Group operates an online risk register which enables the Board, via the Board Risk Committee, to manage the risks faced by the business in a highly proactive manner. The system is used by staff at all levels in the organisation to ensure an enterprise wide approach to risk identification, assessment, management and mitigation is in operation. Risks are continuously assessed as they change and develop. As a result of the Covid-19 outbreak in 2020, outlook on the Society's material risks is more significant because of the uncertainty caused by the disruptions. Management are managing the potential financial impact of those risks by reviewing the Group's operating costs, premium levels and other appropriate measures documented in the Board approved Capital Management and Restoration Plan. The following are the material risks arising from financial instruments that have been identified by the Group:-

(i) New Business Risk

The Group should generate sufficient volumes of new business to ensure it can continue to fund ongoing operations and generate the returns and benefits reasonably expected by its members. Therefore, it must compete in the open market to win business and in so doing faces a range of risks including the insurance risks described below plus others such as over paying to generate sales and the risk associated with mis-sold or misrepresented products. Accepting these risks is a result of being open to new business. Low new business levels may result in an inability to cover the costs of writing that new business. The Group has continued to monitor new business levels. A stagnation in demand and increasing competition raise the risk of writing too little business. The Group's strategy is to maintain its diversified product range, selling to existing members and developing new routes to market to mitigate this risk.

In light of Covid-19 developments, the Society expects new business volumes over 2020 to be lower in comparison to that sold over 2019. A realistic estimate of the reductions in sales volumes for 2020 has been made when assessing the Society's solvency and liquidity position. The Society still expects new business over 2020, even on these reduced estimates, to contribute to the Funds for Future Appropriations and cashflow.

(ii) Insurance Risk

The following are the primary insurance risks in the business:

- Mortality risk is the risk that death claims are significantly more than expected in terms of numbers and values.
- Morbidity risk is the risk that sickness claims are significantly more than expected in terms of numbers and values.
- Lapse risk is the risk the policies cease and therefore contributions from future premiums are not as high as anticipated.
- Expense risk is the risk that the future costs of administering claims are higher than anticipated.

The Group will always have to accept insurance risks if it is to remain open to new business. The inherent major risks within insurance books of business relate to policyholders having a different (worse) risk profile than was thought when they were sold a policy. When such risks appear the Group manages them in a manner of ways, such as in-depth claims management, negotiated early settlements, product withdrawal and revised pricing for replacement products. The Group, for the Over 50's book of business, has also used reinsurance to transfer most of the mortality risk to third-party reinsurers.

The Group sells a range of products to generate distributable surplus for its members, and therefore lapse rate on new business issued is carefully managed. If this is higher than planned, then a lower level of surplus will emerge from the book of business. The Group strives to deliver great service to its policyholders, to encourage high levels of policy retention.

Note 19 sets out the Technical provisions and the changes over the year. A sensitivity analysis of the Group's results to changes in insurance risks is included in Note 5(c). The nature of the Society's protection business is such that it is exposed to the risk of higher sickness claims and lapses as a result of Covid-19. The Society has assessed the potential impact of these additional claims and lapses over 2020 and included those within its solvency and liquidity projections for the remainder of 2020. Additionally, the Society has reviewed its internal claims management processes to reflect the likely nature of claims arising.

(iii) Financial Risks (liquidity risk, market risk, credit risk)

Financial risks vary in nature. The Group and the Society is exposed to a range of financial risks through its financial assets, financial liabilities and insurance liabilities. The most important components of this financial risk are market risks which include equity price risk, property valuation risk, interest rate risk and currency exchange risk, and credit risk which include credit spread risk and counterparty default exposures.

(iii) Financial Risks (liquidity risk, market risk, credit risk) (continued)

Each of the exposures to risk are analysed regularly to assess their likely impact and probability. The overall risk is assessed in the calculation of the Society's Solvency Capital Requirement (SCR) in accordance with the PRA Rulebook, which takes into account the correlation of individual risks. The Board is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

(iv) Liquidity Risk

Liquidity Risk is that of not having sufficient liquid resources to meet changing market conditions and being unable to meet obligations as they fall due, or being able to secure them only at excessive cost. Liquidity is required to honour all cashflow commitments, both on and off the Statement of Financial Position, and these are generally met through cashflows supplemented by assets readily convertible to cash. The management of liquidity is consistent with the economic capital, regulatory and operational needs across the Group. The Board is responsible for defining the risk appetite and monitoring liquidity risk exposure.

Liquidity risk oversight is performed by the Board and the Board Risk Committee. The Board Risk Committee sets and monitors appropriate asset ranges bearing in mind the liquidity needs for each fund.

The following tables show the maturity analysis for the contracted terms of the Group's in force insurance and investment contract liabilities. The Group has adopted a close matching of assets to its liabilities. The Group holds sufficient cash reserves to meet its liabilities as they fall due and it has access to its investment funds should additional cash is required.

	2019 Cash flows (undiscounted)					
Group & Society	Less than 1 year £'000	2-5 years £'000	6-10 years £'000	11-15 years £'000	>15 years £'000	Total £'000
Long term business provision	(4,190)	(1,929)	(9,723)	(593)	2,199	**(14,236)**
Linked liabilities	(542)	(2,755)	(34,923)	-	-	**(38,220)**
Other technical provisions	-	(12,435)	-	-	-	**(12,435)**
Net cash (outflow)/inflow	**(4,732)**	**(17,119)**	**(44,646)**	**(593)**	**2,199**	**(64,891)**

	2018 Cash flows (undiscounted)					
Group & Society	Less than 1 year £'000	2-5 years £'000	6-10 years £'000	11-15 years £'000	>15 years £'000	Total £'000
Long term business provision	(912)	(777)	(4,586)	2,551	2,887	**(837)**
Linked liabilities	(169)	(1,969)	(30,186)	(40)	-	**(32,364)**
Other technical provisions	-	-	-	-	-	**-**
Net cash (outflow)/inflow	**(1,081)**	**(2,746)**	**(34,772)**	**2,511**	**2,887**	**(33,201)**

(v) Market Risk

Market risk is the risk that as a result of market movements the Group may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Market risk is the risk of losses due to changes in the value of investment assets or the income from those assets. The emergence of Covid-19 in 2020 has increased market risks because of its potential to temporarily impact global growth rates through the disruption of supply chains, as well as the value of investment assets that may be perceived as being adversely impacted from a slow down of the global economy. Sources of market risks are set out below. A sensitivity analysis of the Group's results to changes in market risks is included in Note 5(c).

The Board and the Board Risk Committee oversees investment activity, monitors the investment manager's performance, and ensures that the investment policy are adhered to. In uncertain market conditions, investment performance is closely monitored daily. The policy and investment strategy are reviewed and approved by the Board and the Chief Actuary on an annual basis. The Group manages its assets for the benefit of its members in accordance with the Board approved Investment Policy. The Group employs an external investment manager to manage most of the Group's assets, but the Board maintains oversight to ensure that these assets are managed in line with the Investment Policy. In June 2019, the Group employed Royal London Asset Management as its investment manager replacing LGT Vestra LLP.

Notes to the Financial Statements
For the year ended 31 December 2019

5. Risk Management and Control (continued)

(a) Equity Price Risk
Holdings in equities are by their nature subject to market movement. In order to mitigate this risk, the Group ensures that assets are invested in a manner consistent with the requirements set out in the Principles and Practices of Financial management (PPFM).

(b) Property Price Risk
As for equity, property holdings are by their nature subject to market movement. In order to mitigate this risk, the Group employs Matthews & Goodman LLP, Chartered Surveyors to manage its investment land and buildings. The Group only holds a small proportion of its total investment assets in directly held properties.

(c) Interest Rate Risk
Interest rate risk exists for all assets and liabilities which are sensitive to changes in the term structure of interest rates or interest rate volatility. Due to the nature of the Group's products, the long term business funds may be impacted by these interest rate movements.

(d) Exchange Rate Risk
The Group's and Society's investments directly held in foreign currencies are listed below:

	2019 £'000	2018 £'000
Market value of financial assets denominated in:		
USD	-	4,860
Total	-	**4,860**

In prior year, the Group and the Society directly held equity and investment funds that are quoted in foreign currencies. In 2019, the Group and Society have no direct exposure to currency risks because investments were held in pooled funds. Currency risk exposure in the pooled investments are managed by the asset manager, Royal London Asset Management.

(e) Credit Risk

Credit Spread Risk
Credit spread risk results from the sensitivity of the value of the assets and liabilities to changes in the level or volatility of credit spreads over the risk-free interest rate term structure. In prior year, the Group managed its exposure to lower rated, more risky assets by maintaining an appropriate spread of holdings in accordance with the Group's investment mandate. As investments are held in pooled funds in 2019, the Group and Society do not have direct exposure to credit spread risks.

The Group's and Society's directly held financial assets subject to credit spread risk are analysed by credit rating below:

	Group and Society	
	2019 £'000	2018 £'000
Government Bond		
AA	-	726
Corporate Bond		
AAA	-	-
AA	-	1,157
A	-	300
BBB	-	5,632
Below BBB	-	156
Not rated	-	-
	-	7,245
	-	**7,971**

Counterparty Default Risk
Counterparty default risk is the risk of loss incurred by the Group if a counterparty fails to perform its contractual financial obligations, including failing to perform them in a timely manner. Material counterparties include intermediaries, reinsurers and investment management provider. To mitigate this risk, the Group performs appropriate due diligence before entering into the arrangement and on-going monitoring over the term of the arrangement in accordance with the Group's Third Party Management and Outsourcing Framework.

As at 31 December 2019, the Group's exposure to counterparty default risk is mostly in respect of pooled investment assets managed by Royal London Asset Management of £48,391,000 (2018: £nil), and trade and other debtors, including third-party reinsurers, of £377,000 (2018: £479,000). As at 31 December 2019, trade and other debtors that were past due but not yet impaired was £71,300 (2018: £95,000). No amounts from Royal London Asset Management were past due as at the date of the Statement of Financial Position.

The cash deposits are spread between a number of high street banks to reduce exposure to counterparty default risk.

Notes to the Financial Statements
For the year ended 31 December 2019

5. Risk Management and Control (continued)

(vii) Subsidiaries Risk

The Society's subsidiary, Financial Advice Network Limited (the "Network") acts as a distributor of some of the Society's insurance contracts. At the end of 2019 the Network was trading profitably. Management announced the decision on 20 April 2020 to discontinue the activities of the Network (note 23).

The Society's other subsidiary, Financial Advice Website Limited operates as service company for the Society and therefore has limited exposure to risks.

(c) Sensitivity of the Group's and Society's results to changes in key assumptions

		Group and Society	
Variable	Change in Variable %	2019 Change in Available Capital and Profit £000s	2018 Change in Available Capital and Profit £000s
Insurance risks			
Change in mortality	+10%	-	(24)
Change in morbidity (%CMIR12)	+25% inceptions and -20% recoveries	(10,775)	(9,897)
Change in expenses	+10%	(2,582)	(2,386)
Change in lapses	+10%	(4,813)	(3,973)
Change in lapses	-10%	11,157	7,338
Market risks			
Change in fixed interest yields	EIOPA interest rate up	(5,014)	(4,599)
Change in fixed interest yields	EIPOPA interest rate down	1,940	4,390
Fall in equity values	-10%	(1,550)	(1,552)
Fall in property values	-10%	(88)	(49)

Notes to the Financial Statements
For the year ended 31 December 2019

6. Long Term Insurance Liability Valuation Assumptions

The following sets out the assumptions underlying the valuation of the Group's and Society's long term insurance liabilities.

Methodology for Calculating the Group's and Society's Long Term Contracts of Insurance

The key aspects of the methods recommended for this investigation are set out in the following table:

Business Type	Valuation Method
Life Business	
Regular premium life	Asset share plus cost of guarantee
Unitised With-Profits pension	Reserves equal to the value of the units
With-profits Bond (series I and II)	Asset share plus cost of guarantee
Over 50s and Other non-profit life business	Gross premium method of valuation, net of reinsurance
Individual Saving Accounts (ISAs), including Junior ISAs	Asset share plus cost of guarantee
Income Protection Business	
Adult Holloway, Young Holloway, University Savings, SIPP and other IP contracts	Gross premium with members' accounts (where relevant) valued as discounted face value and sickness benefits valued using an inception/recovery average weeks claim approach. Reserves for the closed book of Premier Protect Business are calculated using individual case estimates.

Discount Rate of Interest

Discount rates are set having regard to the unadjusted risk-free rates of return specified by EIOPA.

Expenses

The Society's expenses were analysed between acquisition and maintenance expenses.

Acquisition expenses are assumed to be covered by the margins on new policies written.

Expenses have been applied on a per policy basis following an expense analysis that allocates expenses between the different classes of the Society's business and allowing for the anticipated volumes of new business growth.

Expenses are assumed to increase annually in line with an assumed rate of expense inflation.

Expense inflation is assumed to be in line with the UK implied inflation spot curve published by the Bank of England.

Notes to the Financial Statements
For the year ended 31 December 2019

6. Long Term Insurance Liability Valuation Assumptions (continued)

Mortality

Mortality rates are set by reference to standard actuarial tables by class of business. Mortality assumptions are set out in the following table.

	2019	2018
Life Business excl. Over 50's	65% A6770	65% A6770
Over 50's	200% AXC00	200% AXC00
Income Protection	40% A6770	40% A6770

Morbidity

The following table sets out the sickness assumptions for each class of Income Protection business at the end of 2019 and those used at the end of 2018. Rates are set for Adult Holloway, Young Holloway, and SIPP Holloway by reference to 100% inceptions and recoveries of CMIR12 tables. For non-profit Income Protection, the rates are more carefully defined as below.

	2019	2018
Adult Holloway	25%	25%
Young Holloway	10%	10%
SIPP Holloway	130%	130%
Non-profit Income Protection	50% according to CMIR12 inception rates 105% for healthy lives and 200% for claims in payment according to CMIR12 recovery rates	40%

Persistency

Realistic lapse rates based on actual experience for each product.

Options and Guarantees

The Society is not exposed to implicit option or guarantee other than those within the Society's With-profits contracts.

Notes to the Financial Statements
For the year ended 31 December 2019

7. Earned Premium Analysis

Society and Group	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Regular Premiums				
Insurance contracts	6,995		5,693	
Participating investment contracts	8,533		7,393	
		15,528		13,086
Single Premiums				
Participating investment contracts	8,043		5,694	
		8,043		5,694
Gross premium written		23,571		18,780
Outward reinsurance premiums		(857)		(3)
Earned Premiums		22,714		18,777
Of which earned in:				
United Kingdom		22,702		18,765
Republic of Ireland		12		12

All premiums are written on a direct basis and relate to individual business. Regular premiums are those where there is a contractual obligation or reasonable expectation to pay on a regular basis. Single premiums are those relating to products issued by the Group which provide for the payment of one premium only.

Contributions of £11,280,000 in 2019 (2018: £351,000) relating to non-participating investment contracts are not recognised in the Technical Account but recorded as additions to the investment contract liabilities in the Statement of Financial Position (note 19(b)).

8. Investment income

	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Rental income from land and buildings	115	115	115	115
Income from property investment funds	42	120	42	120
Income from financial assets held at fair value	436	1,234	436	1,234
Interest income from cash and cash equivalents	36	-	36	-
Other investment income/(expense)	(3)	(75)	25	(36)
Realised gains/(losses) on financial assets disposed during the year	3,402	(727)	3,402	(727)
Fair value (losses)/gains on revaluation of land and buildings	(1,000)	78	(1,000)	78
Fair value gains/(losses) on revaluation of financial assets	3,182	(5,516)	3,182	(5,516)
	6,210	**(4,771)**	**6,238**	**(4,732)**

Notes to the Financial Statements
For the year ended 31 December 2019

9. Society and Group Net Operating Expenses

	Society and Group 2019 £'000	Society and Group 2018 £'000
Acquisition costs	10,847	8,303
Administration expenses	2,456	2,311
Reinsurance commission	(1,828)	-
	11,475	10,614
Included in the operating expenses are:		
Auditor's remuneration for financial statements audit services	65	63
	65	63

The cost of the audit services for the subsidiaries of £nil (2018: £6,000) has been included in Other Technical Charges.

10. Staff Costs

The average monthly number of persons employed by the Group and the Society in the year was as follows:	2019	2018
Board Members	9	8
Staff - Acquisition	43	30
Staff - Administration	18	21
	70	59

The aggregate staff payroll costs were as follows:	2019 £'000	2018 £'000
Wages and salaries	3,044	2,482
Social security costs	325	263
Pension costs	428	425
	3,797	3,170

Details of Directors' emoluments are contained in the Directors' Remuneration Report on pages 29 to 30.

Notes to the Financial Statements
For the year ended 31 December 2019

11. Related Party Transactions

Transactions with group undertakings

Advantage has been taken of the exemption under FRS 102 not to disclose transactions with entities that are part of the Society's group. None of the Society's directors are members of the Society.

Appointed Actuary

The following information has been approved in accordance with Section 77 of the Friendly Societies Act 1992:

1. The Chief Actuary during the year was Mr C Critchlow BSc FIA. Mr C Critchlow was also the With-profits Actuary until Mrs C Spinks FIA was appointed as With-Profits Actuary on 1 October 2019. Both were employees of OAC plc as at 31 December 2019. Neither Mr Critchlow, his wife or his children nor Mrs Spinks, her husband or her children were members of the Society at any time during 2019 and the prior year.
2. Neither Mrs Spinks, her husband or children had any financial interest in any transaction with the Society at any time during 2019 and the prior year, other than as an employee of OAC plc. Mr Critchlow was seconded by OAC plc to provide actuarial services to the Society from 1 October 2019 until 31 December 2019 at an agreed fee. Prior to the secondment, neither Mr Critchlow, his wife or children had any financial interest in any transaction with the Society, other than as an employee of OAC plc.
3. The only remuneration was the fee for professional services paid to OAC plc for the services provided by Mr Critchlow, Mrs Spinks and their support teams, and for 2019, the agreed fee for Mr Critchlow's secondment. The amount payable in this respect amounted to £317,468 inclusive of VAT (2018: £332,556). No other benefits, emoluments, pensions or compensation were paid.
4. Ms Spinks did not receive, and will not receive, any other financial benefit. Following Mr Critchlow's employment with the Society from 1 January 2020, he will receive remuneration as an employee to the Society which will be disclosed in the Directors' Remuneration Report for following years.

12. Taxation

	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Corporation Tax				
Policyholdertax charge/ (credit)	-	3	-	-
Deferred Tax				
Timing differences, origination and reversal	(7)	(1)	-	-
Total tax charge/(credit)	(7)	2	-	-

The tax credit for the Group is £7,000 (2018: charge £2,000).

The applicable UK corporation tax rate is 19% for the subsidiaries (2018: 19%). The Finance Bill 2016 substantively enacted on 6 September 2016 included legislation reducing the UK corporate rate to 17% from 1 April 2020.

The Society primarily writes tax exempt business, with a small amount of taxable business. The UK rate of income tax applicable to this business is 20% (2018: 20%).

There is a deferred tax asset in the financial statements of the Group for Financial Advice Network Limited in respect of fixed asset timing differences.

As at 31 December 2019, the Group did not hold any provisions for uncertain tax positions.

Notes to the Financial Statements
For the year ended 31 December 2019

12. Taxation (continued)

Reconciliation of Current Year Tax Charge	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Deficit of income over expenditure before tax	(6,473)	(1,163)	(6,476)	(1,175)
Tax on deficit at 19% (2018: 19%)	(1,230)	(221)	(1,230)	(223)
Factors affecting tax charge:				
Accounting profit not subject to policyholder tax	1,230	224	1,230	223
Accelerated capital allowances	-	4	-	-
Movement in unprovided deferred tax asset	(7)	(5)	-	-
Total tax (credit)/charge	(7)	2	-	-

The tax (credit)/charge in respect of the Group is for Financial Advice Network Limited.

The Society has no tax charge in 2019 or prior year due to the losses the Society is carrying forward in respect of excess management expenses. These losses are available to be used against future profits of the Society. Arising from these losses, the Society has an unrecognised deferred tax asset on deductible expenses carried forward of £724,000 (2018: £769,000). It is considered unlikely that these losses will be used and therefore it continues not to be recognised.

13. Investments

(a) Land and buildings (Society & Group)	Cost 2019 £'000	Market Valuation 2019 £'000	Cost 2018 £'000	Market Valuation 2018 £'000
As at 1 January	1,597	1,881	1,597	1,803
(Losses)/gains from revaluation in the year	-	(1,000)	-	78
	1,597	881	1,597	1,881

A full valuation of the investment land and building is performed at least once every three to five years. In between the full valuations, a 'desktop' valuation is undertaken. Valuations are performed by Matthews and Goodman LLP, Chartered Surveyors. A full valuation was performed as at 31 December 2019. The valuation at 31 December 2019 was based on its existing use, and using market equivalent rents following changes to the tenancy arrangement in the year. In prior year, valuations were based on contractually agreed rents.

13. Investments (continued)

(b) Other Financial Investments at Fair Value through profit or loss (Society & Group)	Cost 2019 £'000	Market Valuation 2019 £'000	Cost 2018 £'000	Market Valuation 2018 £'000
UK and overseas listed equities[1]	-	-	22,807	23,322
UK unlisted equities (note 13(d) & note 15)	3,148	-	-	-
UK and overseas listed fixed interest securities[1]	-	-	8,966	8,917
UK and overseas listed property investment fund[1]	-	-	2,220	2,436
Pooled investments	47,801	48,391	-	-
	50,949	48,391	33,993	34,675
Assets held to cover Linked Liabilities	25,450	38,220	22,390	32,364
	76,399	**86,611**	**56,383**	**67,039**

See note 13(e) for fair value measurement technique applied to financial assets. Following a review of the trading performance of the unlisted investments as at 31 December 2019, the equities have been fair valued at £nil. The trading performance of the entity and its impact on the fair value of the equities are reassessed annually.

1 In 2019, the Group disposed its directly held investments in listed equities, fixed interest securities and investment funds, and transferred the cash proceeds of £36,937,000 into pooled investments managed by Royal London Asset Management. The realised gains from transfer of the investments in the year was £3,343,000.

(c) Investment in Subsidiary

The Society owns 100% of the ordinary share capital of Financial Advice Network Limited (trading company operating as an intermediary) and Financial Advice Website Limited (trading company operating as a service company). Both subsidiaries have a registered office of Haw Bank House, High Street, Cheadle SK8 1AL, United Kingdom.

Both subsidiaries are exempt from the requirements of Companies Act 2006 relating to the audit of their individual financial statements. The Society provided a guarantee under s479C of Companies Act 2006 to both subsidiaries, Financial Advice Network Limited (Registered number 05378813) and Financial Advice Website Limited (Registered number 08088016) for the year ended 31 December 2019.

	Shares in Subsidiary £'000
As at 1 January and 31 December 2019	500

Notes to the Financial Statements
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13. Investments (continued)

(d) Investment In Associate

The Society owned 24% of the ordinary shares of Life's Great Group Limited as at 31 December 2018. Following third party investment into Life's Great Group Limited in 2019, the Society's holding reduced to 10.09% and therefore no longer meet the definition of an associate. The investment was reclassified as other financial investments measured at fair value (note 13(b)). The fair value is measured by reference to an arm's length transaction for identical assets as at the valuation date.

	Cost 2019 £'000	Market Valuation 2019 £'000	Cost 2018 £'000	Market Valuation 2018 £'000
As at 1 January	800	1,175	800	800
Additions	-	-	-	-
Fair value gains/(losses) through profit or loss	-	(1,175)	-	375
Reclassified to other financial investments (note 13(b))	(800)	-	-	-
As at 31 December	-	-	800	1,175

(e) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. Fair values are generally determined at prices quoted in an active market (level 1). Where such information is not available it may be possible to apply calculation techniques making use of market observable data for all significant inputs (level 2). Where inputs are not based on observable market data, fair values are classified as level 3. Level 3 financial assets are fair valued by reference to arm's length transaction for identical assets at the valuation date with consideration of the trading performance of the investment.

The classification of the Group's and Society's financial assets that have been measured at fair value has been assessed by management, in conjunction with information received from the Investment Manager, and is set out below.

Financial Assets	Group and Society 2019			Group and Society 2018		
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Shares and other variable yield securities	-	-	-	18,230	7,524	-
Debt securities and other fixed income	-	-	-	7,971	950	-
Assets held to cover linked liabilities	38,209	11	-	32,351	13	-
Investment in associate	-	-	-	-	-	1,175
Pooled Investments	-	48,391	-	-	-	-
	38,209	48,402	-	58,552	8,487	1,175

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14. Debtors: Amounts receivable within one year

	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Debtors arising out of direct insurance operations	21	29	21	29
Debtors arising out of reinsurance operations	20	-	20	-
Other debtors	336	449	303	407
Amounts owed by group undertakings	-	-	449	260
Deferred tax asset (note 12)	7	1	-	-
	384	**479**	**793**	**696**

15. Debtors: Amounts receivable after more than one year

	Group and Society	
	2019 £'000	2018 £'000
Loan to Associate	-	2,313
	-	**2,313**

As at 31 December 2018, the total loan outstanding, including compounded interest, was £2,290,000 and the interest receivable was £23,000.

The total loan outstanding and interest receivable of £2,348,000 as at 8 February 2019 were converted to non-cumulative, callable ordinary shares held in Life's Great Group Limited and therefore reclassified to other financial investments held at fair value (note 13(b)).

16. Tangible assets

	Society Property Improvement £'000	Society Equipment & Fixtures & Furniture £'000	Society Total £'000	Group Total £'000
Cost				
At 1 January 2019	411	241	652	664
Additions	11	29	40	40
Disposals	(30)	(63)	(93)	(93)
At 31 December 2019	**392**	**207**	**599**	**611**
Depreciation				
At 1 January 2019	14	156	170	182
Provided for in the year	26	39	65	65
Disposals	(8)	(63)	(71)	(71)
At 31 December 2019	**32**	**132**	**164**	**176**
Net book value				
31 December 2019	**360**	**75**	**435**	**435**
31 December 2018	397	85	482	482

There are no assets acquired during 2019 using a finance lease arrangement (2018: £nil).

Notes to the Financial Statements
For the year ended 31 December 2019

17. Intangible assets

	Society Software £'000	Society Total £'000	Group Total £'000
Cost			
At 1 January 2019	1,178	1,178	1,445
Additions	193	193	193
Disposals	-	-	-
At 31 December 2019	**1,371**	**1,371**	**1,638**
Depreciation			
At 1 January 2019	883	883	1,105
Provided for in the year	166	166	211
Disposals	-	-	-
At 31 December 2019	**1,049**	**1,049**	**1,316**
Net book value			
31 December 2019	**322**	**322**	**322**
31 December 2018	295	295	340

18. Movements in Fund for Future Appropriations (Group and Society)

Fund for Future appropriations (Group)	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Balance at 1 January		23,662		24,825
Transfer to Technical Account	(6,381)		(870)	
Transfer to Other Comprehensive Income	(85)		(293)	
		(6,466)		(1,163)
Balance at 31 December		**17,196**		**23,662**

Fund for Future appropriations (Society)	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Balance at 1 January		23,666		24,841
Transfer to Technical Account	(6,391)		(882)	
Transfer to Other Comprehensive Income	(85)		(293)	
		(6,476)		(1,175)
Balance at 31 December		**17,190**		**23,666**

19. Technical Provisions (Group and Society)

(a) Long Term Business Provision	2019 £'000 Gross	2019 £'000 Reinsurers' share	2019 £'000 Net	2018 £'000 Gross	2018 £'000 Reinsurers' share	2018 £'000 Net
Balance at 1 January	16,340	-	16,340	19,967	-	19,967
Reinsurance arrangement	-	(5,868)	(5,868)	-	-	-
Premiums received	23,571	(857)	22,714	18,777	-	18,777
Claims incurred	(14,859)	680	(14,179)	(11,469)	-	(11,469)
New business	(16,618)	(452)	(17,070)	(10,427)	-	(10,427)
Experience variance and assumption changes	4,851	(149)	4,702	(1,698)	-	(1,698)
Changes in methodology (note 4(d))	13,574	-	13,574	1,190	-	1,190
Balance at 31 December	26,859	(6,646)	20,213	16,340	-	16,340
Balance at 31 December comprises:						
Long Term Business Provision for protection benefit	(41,526)	-	(41,526)	(38,679)	-	(38,679)
Reinsurers' share of technical provisions	-	(6,646)	(6,646)	-	-	-
Long Term Business Provision for benefits excluding protection	68,385	-	68,385	55,019	-	55,019
	26,859	**(6,646)**	**20,213**	**16,340**	**-**	**16,340**

In 2019, the Society entered into a reinsurance arrangement for its Over50s book of business that included policies in force prior to 1 January 2019.

(b) Linked Liabilities - Investment contracts	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Balance at 1 January		32,364		35,715
Net contributions from members		194		251
Gains/(losses) on assets held for linked liabilities	6,162		(3,202)	
Fees deducted	(500)		(400)	
Movement on linked liabilities in Technical Account		5,662		(3,602)
Balance at 31 December		**38,220**		**32,364**

Notes to the Financial Statements
For the year ended 31 December 2019

19. Technical Provisions (Group and Society) (continued)

(c) Other technical provisions	2019 £'000	2018 £'000
Balance at 1 January	-	-
Net contributions from members	10,903	-
Interest attributed to policyholders in the year	95	-
Balance at 31 December	**10,998**	-

In 2019, the Society issued fixed rate bonds that meet the classification criteria for investment contracts and therefore presented as Other Technical Provisions.

20. Other creditors, including taxation and social security

	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Amounts due to members	462	359	462	359
Taxation and social security	95	89	95	89
Other creditors	403	555	331	461
	960	**1,003**	**888**	**909**

21. Operating Rent & Lease Commitments

	Group and Society	
Total payable under non-cancellable operating leases are as follows:	2019 £'000	2018 £'000
Amounts falling due < 1 year	97	96
Amounts falling due 2 - 5 years	436	378
Amounts falling due 5 years +	1,423	1,549
	1,956	**2,023**

In the prior year, the Group agreed a new lease for its Head Office. The commitment under the previous lease arrangement for the Head Office has been fully extinguished.

Other operating expenses in the Statement of Comprehensive Income includes operating lease payments of £101,000 for 2019 (2018: £39,000).

Notes to the Financial Statements
For the year ended 31 December 2019

22. Pension Scheme Obligations (Society and Group)

The Group and Society operate a Final Salary defined benefit pension scheme. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Scheme has been closed to new entrants since 1 May 2005. No benefits have accrued after 7 January 2018.

The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme.

There are two categories of pension scheme members:

- Deferred members: former active members of the Scheme and not yet in receipt of a pension; and
- Pensioner members: members in receipt of a pension.

(a) Assumptions

The most recent formal actuarial valuation was carried out as at 5 April 2018. The results have been updated to 31 December 2019 by a qualified independent actuary. The assumptions used were as follows:

Actuarial assumptions	Year ending 31 December 2019	Year ending 31 December 2018
Discount Rate	1.90% pa	2.70% pa
Retail price inflation	3.00% pa	3.20% pa
Consumer price inflation	1.80% pa	2.00% pa
Salary Increases	n/a	n/a
Rate of increases of pensions in payment		
- CPI max 3%	1.70% pa	1.80% pa
- RPI max 5%	3.00% pa	3.10% pa
- RPI max 2.5%	2.20% pa	2.30% pa
Rate of increase for deferred pensioners	1.80% pa	2.00% pa

Demographic assumptions	Year ending 31 December 2019	Year ending 31 December 2018
Mortality (Pre retirement)	As per post retirement	As per post retirement
Mortality (Post retirement)	102% (males) / 110% (females) of S3PA CMI_2018_M/F [1.00%] (yob)	100% S2PA CMI_2017_M/F [1.00%] (yob)

Life Expectations	2019		2018	
	Male	Female	Male	Female
Life expectancy for an individual aged 65 in the year	21.5 years	23.2 years	21.8 years	23.7 years
Life expectancy at age 65 for an individual aged 45 in the year	22.5 years	24.3 years	22.8 years	24.9 years

22. Pension Scheme Obligations (Society and Group) (continued)

(b) Assets

The assets of the Scheme are invested as follows:

Asset Class	Year ending 31 December 2019		Year ending 31 December 2018	
	Market Value £'000	% of total Scheme assets	Market Value £'000	% of total Scheme assets
Bonds	-	-	367	10%
Gilts	1,024	27%	816	22%
Cash	46	1%	41	1%
Diversified Growth Funds	1,122	30%	1,615	44%
Diversified Credit Funds	1,275	34%	846	23%
Equities	318	8%	-	-
Total	**3,785**	**100%**	**3,685**	**100%**

The actual return on assets over year was a gain of £315,000 (2018: loss of £104,000).

(c) Reconciliation to the Statement of Financial Position

	Year ending 31 December 2019 £'000	Year ending 31 December 2018 £'000
Market Value of assets	3,785	3,685
Present Value of liabilities	(4,362)	(4,220)
Surplus/(Deficit) in the scheme	(577)	(535)
Pension asset/(liability) recognised in the Statement of Financial Position before allowance for deferred tax	**(577)**	**(535)**

Notes to the Financial Statements
For the year ended 31 December 2019

22. Pension Scheme Obligations (Society and Group) (continued)

(d) Reconciliation of Scheme Assets and Defined Benefit Obligation ("DBO")

	Assets £'000	DBO £'000	Total £'000
As at 1 January 2019	3,685	(4,220)	(535)
Benefits paid	(271)	271	-
Employer contributions	56	-	56
Interest income/(cost)	97	(110)	(13)
Remeasurement gains/(losses):			
- Actuarial gains/(losses): changes in assumptions	-	(303)	(303)
- Return on plan assets excluding interest income	218	-	218
As at 31 December 2019	**3,785**	**(4,362)**	**(577)**

(e) Analysis of Amounts Charged/(Credited) to Statement of Comprehensive income

Technical Account:	Year ending 31 December 2019 £'000	Year ending 31 December 2018 £'000
Total Service Cost comprising past service cost	-	27
Net Interest	13	6
Amount charged to operating expenses in the Technical Account	**13**	**33**
Other comprehensive income:		
Remeasurement of the net defined benefit liability/(asset):		
Actuarial gains/(losses) on liabilities	(303)	(88)
Return on assets excluding amount included in net interest	218	(205)
(Loss)/gain recognised in Other Comprehensive Income	**(85)**	**(293)**
Total amount charged/(credited) to Statement of Comprehensive Income	**98**	**326**

22. Pension Scheme Obligations (Society and Group) (continued)

(f) Future Funding Obligation

The Trustee is required to carry out an actuarial valuation every 3 years.

The last actuarial valuation of the Scheme was performed by the Actuary for the Trustee as at 5 April 2018. The Society agreed to pay £75,000 per annum for 1 year and 11 months from 1 April 2019 to pay off the deficit. The Society therefore expects to pay £75,000 to the Scheme during the financial year beginning 1 January 2020.

23. Events after the date of the Statement of Financial Position

On 20 January 2020, the Group announced it was discontinuing the operations of its subsidiary, Financial Advice Network ("FAN"). FAN was not considered a significant component of the Group.

2020 has begun with a global pandemic and economic uncertainty caused by the Covid-19 virus outbreak. Notwithstanding the Society's financial strength and investment strategy, the uncertainties and disruptions will potentially have significant financial impacts on the Society's investments, insurance exposure and operations for the following financial year. As the situation is rapidly evolving, it is not practicable to fully quantify the potential financial impact on the Group and the Society. Management have considered the impacts as best as they can. At the time of approving these financial statements and throughout the period to when the financial statements were approved, the Society remained above its required solvency levels. Management are taking actions to manage the disruptions and potential financial impacts caused by the events.

Glossary

Annual Premium Equivalent (APE)
An industry standard measure of amount of new premiums written and is equal to 100% of annualised regular premiums plus 10% of single premiums.

Corporate Governance
An internal system encompassing processes, policies and people by directing management activities with objectivity, accountability and integrity.

Financial Conduct Authority (FCA)
An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.

FRS102 FRS103
A Financial Reporting Standards issued by the the Accounting Standards Board.

Fund for Future Appropriation, FFA
The Statement of Financial Position item required by Schedule 3 to the Regulations to comprise all the funds of which the allocation to policyholders has not been determined by the end of the reporting period.

ORSA Own Risk and Solvency Assessment
The ORSA is the Society's Own Risk and Solvency Assessment. It is a forward looking assessment of the Society's solvency position taking into account the specific risks to which it is exposed.

Pooled investments
Also known as collective investment schemes, monies from investors are put into a large fund that is spread across many investments and managed by a professional fund manager.

Prudential Regulation Authority (PRA)
Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation.

Realised and unrealised gains or losses
A realised gain or loss occurs when an asset is sold and is the difference between the sale proceeds and the cost. Insurance companies are required to revalue their assets every year, and the increase or decrease in value since the previous year is classed as an unrealised gain or loss.

Reinsurance
The Society pays a premium to a larger insurer to share the risks for larger sums assured.

Solvency II Directive
Solvency II Directive is a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders.

Solvency and Financial Condition Report (SFCR)
A report required under Pillar III of the Solvency II directive. Life insurers in the UK are required to disclose this report publicly and to report it to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.

Smoothing
The principal of reducing bonuses in good years to prevent lower bonuses in poor years.

Technical provisions
An actuarial calculation of the amounts due to policy holders.

Three lines of defence approach
Monitoring of the effectiveness of the Society's systems and controls consisting senior management team, internal compliance function and their advisers, and internal audit function.

Valuation methods
Note 6 of the Report and Accounts refers to the assumption that the actuary uses in calculating the Technical provisions. The references are to standard actuarial tables for calculating death and sickness rates.

With-Profits Fund
All members/policyholders participate in the profit and losses of the fund.

Notes

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