

Shepherds Friendly Society Limited Annual General Meeting 2015



**Your chance to make
your voice heard**

Voting guide & AGM information booklet



Mutual Solutions. Mutual Benefits. Your Future.

SHEPHERDS FRIENDLY IS A TRADING NAME OF THE SHEPHERDS FRIENDLY SOCIETY LIMITED WHICH IS AN INCORPORATED FRIENDLY SOCIETY UNDER THE FRIENDLY SOCIETIES ACT. REGISTERED NO 240F.

AUTHORISED BY THE PRUDENTIAL REGULATION AUTHORITY AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY AND THE PRUDENTIAL REGULATION AUTHORITY, FINANCIAL SERVICES REGISTER NO 109997.

The Shepherds Friendly Society Limited

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The Head office and Registered office of The Shepherds Friendly Society is based in the United Kingdom.

www.shepherds.co.uk



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How to vote

Voting at the AGM is simple. You can now vote:



Online

You can vote securely online 24 hours a day until 12.30pm on Monday 29th June 2015 by visiting www.shepherds.co.uk/agmvote. To vote online you will need your personal voting code, which you can find on your AGM letter with this leaflet.



By post

This is called a proxy vote and you must complete the proxy voting form enclosed in this pack and return it to us by Monday 29th June 2015.



In person

You are more than welcome to come along on Tuesday 7th July in person to the Annual General Meeting itself. Simply bring along your completed voting form together with another form of identification. The meeting takes place at Shepherds Friendly, Shepherds House, Stockport Road, Cheadle SK8 2AA. If you wish to attend in person please can you let us know in advance, this will assist us planning arrangements on the day.

Important information about this year's AGM information booklet

Dear Member,

You have probably noticed that this year's AGM update is longer than normal, this is because since our last AGM, which took place in July 2014, there have been changes in legislation. These changes cover what AGM information we have to send out to our members each year.

What are these changes?

We are now required to send you our annual Strategic Report which forms part of the full Annual Report and Accounts. This is enclosed within this leaflet along with other beneficial items such as our annual charity donations, annual financial statements and the Chairman's report.

The Strategic Report

The reference we make in this leaflet to the strategic report is only one part of the full annual Report and Accounts, which can be found on the Shepherds Friendly website or sent out to you upon request.

The Shepherds Friendly Report and Accounts

A Shepherds Friendly member is entitled to receive our full Report and Accounts and they can do so by writing to the Society at the following address -

The Company Secretary, The Shepherds Friendly Society, Shepherds House, Cheadle, Stockport, SK8 2AA.

Or by telephoning 0161 428 1212 and asking for the Company Secretary, Mr Tim Robertson.

Alternatively, if you have access to the internet they are available for you to download. They are currently located in our 'About' section under 'Reports and accounts'.

Auditor's qualifications

The auditors qualifications normally features within this leaflet next to our consolidated financial reports. The recent changes now specify that the annual report and accounts are not qualified by the auditors in any respect.

We do hope that those changes make sense and that you enjoy finding out how your Society has been performing over the past year.

JOANNE HINDLE
Chairman
March 2015



Chairman's Review 2014

Review of 2014

There was little change in 2014 to the pattern of economic recovery in the world. The UK continued to strengthen slowly with unemployment falling, Gross Domestic Product improving and interest rates remaining at a record low. A similar pattern applied in the USA. On the downside, the Chinese economy, whilst still growing, slowed down considerably and this had a knock-on effect across the world as Chinese demand for raw materials weakened and demand for their manufactured goods fell.

The most difficult economic problems remain those of the Eurozone, which has been slow to adopt fiscal remedies such as Quantitative Easing. Towards the end of the year, many of the major European economies were approaching deflation and the added risk of Greece leaving the Euro currency was emerging.

Other major events appeared which affected the world economies and will continue to do so for some time. Paramount amongst these were war in the Ukraine, the emergence of Islamic State and the collapse in the price of oil.

Set against the above back-drop, investment markets did reasonably well in 2014. Major indices, including those of the USA, Japan and Germany made useful gains but unfortunately, at year end, the FTSE 100 was down almost 3% on the previous year.

The Shepherds' Fund

The Shepherds' long term insurance fund is invested across a range of asset classes and this helped to offset the underperformance in our equity share portfolio, which is largely invested in the UK market. The fixed interest portions of our investment portfolio showed a gain of 11.3%, and the equity portfolio a return of 5.2%. The fund, as a whole, achieved a return of 7.6%. In addition the estimated annual income yield on the portfolio is currently 3.46%.

Our Child Trust Fund is invested on a unit linked basis in a Legal and General managed FTSE 100 Tracker Fund and in 2014 this achieved a return of 0.4%.

Operational Business Matters

Turning now to operational business matters, the Society had an excellent year. More detail is given in the Strategic Report but, in summary, new business premiums on an annualised basis increased by 71%, total business premiums increased by 10%, and total operational costs although within the planned budget were 24.6% higher than 2013.

The increase in operating costs was driven by the growth in new business volumes and the associated acquisition costs, increased costs of regulation and governance and an increase in the costs of claims handling. Membership numbers increased by 2.05% (2014: 83,308 - 2013: 81,600).

It is of strategic importance that the Society continues to sell a material volume of new With-profits business and we are pleased to confirm we were particularly successful in this respect in 2014 by virtue of increased take up of our ISA product.

Continued good progress

The Society has continued to make good progress over the past twelve months, when investment conditions have remained challenging. This has meant that we have been able to award our members an annual bonus for the twelfth consecutive year and maintain rates at current levels set in 2013.

In accordance with the requirements of the Friendly Societies Act 1992, the Board of Management confirms that all the activities carried out during the year by the Society have been carried out within its respective powers.

The Society has maintained the required margin of solvency in accordance with PRA regulations. I can confirm on behalf of the directors that the business is a going concern as evidenced in the formal accounts below. In our view this Report and Accounts, taken as a whole, provides information which gives a fair, balanced and understandable view of the Society's performance, business model and strategy.

Geoffrey Spencer retired from his role as CEO at the end of 2014 and left the Society on 15th January 2015. The Board wish to thank him for the valuable contribution he has made to the Society's success over recent years, and wish him all the very best in his retirement.



JOANNE HINDLE
Chairman
March 2015

[See The Strategic Review on pages 8/9/10](#)

Elections and re-elections to the board

Board Re-elections

The following Non-Executive Directors are standing for re-election. The Board confirms that the performance of these Non-Executive Directors continues to be effective and demonstrates commitment to their roles and recommends their re-election. Short biographies are given as follows:



Joanne Hindle - Chairman
 Standing for re-election

Joanne joined the financial services industry in 1986 and has held a variety of roles within. She was on the Board of 'disability insurer Unum', serving for seven years as Corporate Services Director with responsibilities for all Governance matters. Having left UNUM in 2008, she is now a Board Director of Campbell Page UK.

Joanne also consults for part of the AXA Group on strategic legal and compliance matters.



Nemone Wynn-Evans - Non-executive director
 Standing for re-election

Nemone has 15 years' financial and commercial executive experience in the equity capital markets sector of the City of London, most recently as Finance Director on the main board of a stock exchange. She has also held roles at the London Stock Exchange, HSBC Investment Bank and KPMG Corporate Finance.

Nemone's board experience includes corporate governance, financial leadership, corporate finance, corporate communications, investor relations, regulatory liaison, risk and compliance and business development.

Nemone 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.



Geoffrey Ross - Non-executive director
 Standing for re-election

Geoffrey spent his entire career as an actuary in the life assurance industry holding Chief Actuary and Finance Director roles in a number of insurance companies/friendly societies. He set up his own consultancy practice on retiring from Resolution Group plc in 2006 acting as With Profits Actuary for a number of companies in that Group. Currently he is With Profits Actuary of Reliance Mutual and acts as a pension scheme trustee.

Elections to the Board

After a review of the Board, the retirement of Directors and the ongoing business plan we felt that a significant benefit to the Society can be obtained by inviting Barry Bibby to join as Non-executive director and Justine Morrissey as Executive director.



Barry Bibby - Non-executive director
 Standing for election

Barry is an accountant with experience as a practitioner and a commercial finance director. As a partner in a firm of chartered accountants he was responsible for the audits of regulated businesses. He was finance director of TAG Heuer UK, luxury goods distributor, for eight years during a period of continuous growth and was part of the management team leading to a successful sale of the business. More recently he has been a consultant finance director advising a wide range of businesses and in a variety of sectors.

Barry is a Fellow of the Institute of Chartered Accountants in England and Wales.



Justine Morrissey - Executive director
 Standing for election

Justine has worked all her career as an actuary in the life assurance industry. The last 15 years has been in the friendly society sector in a variety of roles from product development to regulatory reporting. She joined the society in 2012 and is the head of finance and risk. A prime focus within her role is heading up the implementation of solvency II for the society.

Strategic report

For year ended 31st December 2014

Strategic management

The Society's Board meets twice a year to review the medium to long term strategy of the business. Strategy is always set within the context of the Society's Risk Appetite Statement and this in turn is regularly reviewed as part of the continuous process to operate our business within the framework provided by our Own Risk Solvency Assessment (ORSA).

The ORSA is a forward looking assessment of how the Society can be operated in the best interests of its members. It is a document required to be given to our Regulators by the European Solvency II Directive on at least an annual basis commencing in 2016. As such the content of this Strategic Report will always be a reflection of the content of the Society's ORSA. Although not required until 2016 the Society produced an ORSA in 2013, 2014 and will do so again in 2015.

The Shepherds Friendly Society

The principal activity of the Society is to transact long-term assurance business for the benefit of its members. The Society writes long term insurance business which is both With-profits business and Non-profit business and does so within a single long term insurance fund. It recognises the regulatory requirement to continue to generate a material volume of new With-profits business and to do so in a manner which satisfies the rules set in this context by the Prudential Regulatory Authority and the Financial Conduct Authority.

The Society has quantified measures to determine what is meant by a material volume of new With-profit business and based on these determines annually whether it is in the member's interests for the fund to remain open to new business. Governance of the With-profits fund is via a With-profits Committee which ensures the Society complies with its Principles and Practices of Financial Management and the regulatory rules applicable to with profits business.

Based upon the views and recommendations received from the With-profits Committee the Board is able to ensure the Society generates and preserves value for its Members.

Foremost in the ways it preserves value are -

- Fulfilling an investment strategy which seeks to generate returns matched to liabilities and member expectations
- Writing sufficient new business volumes to meet operating expenses
- Restricting the amount the With-profits fund invests in other strategic assets or new business ventures

In terms of investment strategy we operate a hypothecated approach whereby different types of policy liabilities and member expectations are supported by different investment strategies. For example we invest more heavily in equities and property to back the need for investment growth in our savings and investment range of products, whereas we invest more heavily in Fixed Interest assets to support the liabilities created by protection products.

Our strategic business model

To ensure we are able to write sufficient volumes of new business the Society has a strategic business model which seeks to distribute its own products and the products of other financial services companies to its existing and prospective members. This is a strategically diversified approach using three distribution channels based upon segmenting the consumer market into three broad groups- consumers who are under 18 years of age, the adult working population (with a leaning toward the self-employed), and the over 50's market.

It designs products which it believes match the needs of consumers in these segments and thereby seeks to put the customer at the heart of what it does. This diversified product and consumer strategy is believed by the Board of Management to be an appropriate way of mitigating the risk of being over reliant on any one product or distribution channel.

In 2014 the Society launched a new benefit programme for its members which it believes is of long term strategic importance. The programme demonstrates the added value of membership of a mutual Society by offering a range of membership benefits which will be funded by using a small amount of money from the Society's surplus. Benefits included in this service are include preparing a Simple Will, access to legal guidance and documents, guidance on long term care for the elderly and a financial health check service.

Our wholly owned subsidiary company, Financial Advice Network Ltd, plays a central role in speaking to existing and prospective members about their financial well-being.

The Board believes that increasing new business volumes generally, maintaining material volumes of new With-profits business and providing a wider range of benefits to our members, are the key elements enabling the Society to remain open to new business, and that this is the best way of delivering the greatest future financial benefit to them.

Business environment

The Society operates in an environment characterised by increasing competition from very large insurers, increasing costs associated with complying with the burgeoning amount of new regulation and a diminishing awareness of small Friendly Societies by the general public.

Set against these trends, which have been strengthening for at least the last ten years, the Society has done well to increase its sales income substantially during this period.

We do not see the above factors diminishing going forward. As well as the competition from household name proprietary insurance companies, consolidation in the mutual sector is continuing to gather pace leading to stronger competition from the merged entities.

Complex and expensive regulation has, and will continue, to affect us considerably. Most significant in the short term is the implementation of Solvency II in January 2016. This will be followed by the introduction of a new Key Information Document regime, and at an unknown point there may be further changes to the rules governing the distribution of products and the nature of giving customers advice.

Small mutuals do not have financial resources to enable them to heavily advertise their services and products and therefore have to focus on lower cost ways of getting in front of new customers. The internet has become important in this respect and, whilst developing a successful presence on it does incur expense, it is a lower cost route to market than many others.

Strategic report - continued

The Society has shown it has the internal resources to grow successfully in the above operating environment and is confident it can continue to do so. It has done so by being innovative within the niche products and markets it targets and by not “having all its eggs in one basket” in terms of its product range and its routes to market.

Risks faced by the Society

In conducting its business the Society faces a range of risks and these are fully discussed in the Society's ORSA. The most significant such risks are Insurance Risk, Market Risk and Morbidity Risk.

Insurance risk arises if the Society writes not enough new business or if it writes too much. A certain volume of new business is necessary both to generate enough allowances to cover operating costs and to ensure that we can continue to operate an open With-profits fund. However, if too much new business is written then the initial expenses of doing so can place a strain on the surplus of the business leading to solvency problems.

The Society develops business plans to write new business within certain safe parameters and then monitors production on a monthly basis.

Market risk relates to volatility in the investments the Society makes to cover its liabilities to policy holders and to protect the surplus. Sudden stock market falls, especially in relation to equity share investments, could threaten solvency if actions were not taken in such circumstances. The Society has a defined range of management actions that it takes if falls in equity markets hit certain trigger points and the solvency level is thereby protected.

Morbidity risk relates to the level of sickness claims on the Society's policies exceeding the levels expected when the policies were sold. The Society writes a significant volume of new income protection business of a type which is different to the Holloway Income Protection policies it original provided. These new policies are distributed using independent intermediaries which is also different to the historic approach used.

The Society monitors very closely developments in the claims experience as it expects claims levels to be higher on the new types of policy and will take a range of actions to ensure the position is safely managed. Management actions include withdrawing products, re-pricing products, strengthening under-writing and enhanced claims scrutiny.



JOANNE HINDLE
 Chairman
 March 2015

Directors' update

For the year ended 31st December 2014

Complaints

The Society has in place clearly documented procedures for the handling and recording of complaints. The Compliance Officer investigates all complaints thoroughly and impartially within a reasonable time. A Member who feels dissatisfied with the result of such investigation has the right to raise the matter with our Senior Independent Director and can refer the complaint to the Financial Ombudsman Service.

Pension Scheme

The assets of the Society's defined benefit pension scheme are totally separate from the assets of the Society and are invested with independent fund managers. The trustees include both member nominated and employer nominated trustees. The actuaries of the pension scheme are independent of those of the Society.

Charitable donations

As a result of various fundraising activities organised by Shepherds Friendly staff members donations totalling £244 were made to the following charities the Seashell Trust & Laura Crane Youth Cancer Trust during 2014.

Appointment of Auditors

Moore Stephens were re-elected as Auditors.

Responsibility for Accounts and Statement of Disclosure of Information to Auditors

It is the responsibility of the directors to ensure that the accounts are prepared in an accurate and timely matter. I can confirm on behalf of the Board that the directors are satisfied that this is the case in respect of the 2014 audited accounts.

The directors who held office at the date of approval of the Report and Accounts confirm that, as far as each of them is aware, there is no information relevant to the audit of the Society's consolidated financial statements for the year ended 31st December 2014 of which the auditors are unaware. They have taken all the steps they should have taken as directors to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Summary of Financial Results

This financial statement is a summary of information in the audited Annual Accounts and the Report of the Board of Management.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31st DECEMBER 2014

Income and expenditure for the year ended 31st December 2014

	2014 £	2013 £
Earned premiums, net of reinsurance	7,246,948	6,577,189
Investment income	2,074,989	5,008,441
Unrealised losses/gains on investments	1,910,989	4,255,709
Other technical income	1,123,281	988,252
Total technical income	12,356,207	16,829,591
Claims incurred, net of reinsurance	8,304,157	7,799,254
Changes in other technical provisions	(1,638,875)	3,312,615
Net operating expenses	4,147,849	3,117,588
Other technical charges	1,751,945	1,600,103
Pension	277,000	(6,000)
Transfer to fund for future appropriations	(485,869)	1,006,031
Total technical expenditure	12,356,207	16,829,591

SUMMARY CONSOLIDATED BALANCE SHEET AS AT 31st DECEMBER 2014

Assets	2014 £	2013 £
Investments	76,088,252	77,884,512
Debtors	227,685	34,035
Other assets, including cash	1,870,200	2,179,127
Prepayments and accrued income	1,120,414	977,321
Net pension asset	(449,000)	(295,000)
Total assets	78,857,551	80,779,995
Liabilities		
Reserves	9,606,891	10,134,749
Technical provisions	68,141,335	69,770,867
Creditors arising from direct insurance operations	137,221	150,767
Other creditors including taxations and social security	429,237	198,726
Accruals and deferred income	542,867	524,886
Total liabilities	78,857,551	80,779,995

Approved by the Board on 30th March 2015. J Hindle Chairman, A M O'Dea Director



Venue for the Annual General Meeting 2015

The Annual General Meeting will be held at:
**Shepherds Friendly Society, Shepherds House,
Stockport Road, Cheadle, Cheshire, SK8 2AA
at 6pm on Tuesday 7th July.**

Shepherds House has parking for approximately 25 vehicles. It is situated on main bus routes. Coffee and biscuits will be available from 5.30pm for members attending the meeting. No travel, subsistence or other expenses will be paid. Please do not bring cameras, laptops or recording equipment with you. Mobile phones must be switched off during the meeting.

How to vote

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