The Shepherds Friendly Society Limited

Report of the Board of Management and Financial Statements

31 December 2014

www.shepherds.co.uk

Shepherds FRIENDLY
Mutual Solutions. Mutual Benefits. Your Future.

The Shepherds Friendly Society Limited

Board:

Joanne Hindle	Chairman
Geoffrey Ross	Non Executive Director
Julie Meadows	Non Executive Director
Nemone Wynn-Evans	Non Executive Director
Martin Howard	Non Executive Director
Geoffrey Spencer	Chief Executive Officer
Kim Harris	Executive Director
Ann-Marie O'Dea	Executive Director

Geoffrey Spencer retired from his CEO role at the end of the year.

During the year Julie Meadows left the Board and Martin Howard moved to become a non-executive director of our subsidiary company.

Company Secretary:	**Tim Robertson**
Registered Office:	Shepherds House, Stockport Road, Cheadle, Cheshire SK8 2AA Tel: **0161 428 1212** Fax: **0161 428 3666** Email: **info@shepherds.co.uk** Website: **www.shepherdsfriendly.co.uk**
Actuarial Function Holder and With Profits Actuary:	**Christopher Critchlow** BSc FIA of OAC plc
External Auditors:	Moore Stephens LLP Chartered Accountants, Registered Auditors
Internal Auditors:	PKF (UK) LLP (who merged into BDO during the year)
Bankers:	The Royal Bank of Scotland Plc
Investment Managers:	Vestra Wealth LLP Legal and General Investment Management Ltd
Property Managers:	Matthews and Goodman, Manchester

Authorised and Regulated by the Prudential Regulation Authority and the Financial Conduct Authority - Registration number 109997. Incorporated under the Friendly Societies Act 1992 - number 240F.

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Your Board

Joanne Hindle - Chairman

Joanne joined the financial services industry in 1986 and has held a variety of roles. These include being Corporate Services Director for UNUM, Chair of the trade body ILAG and head of legal and compliance for part of the AXA Group. She currently works as independent financial services professional as well as being a Director for the Financial Services Research Forum.

Geoffrey Spencer - Chief Executive

Following university Geoff commenced his financial services career in 1974 with the NatWest Group and subsequently held senior positions at the Legal and General Group and Royal and SunAlliance Group. Prior to becoming Chief Executive of Shepherds in early 2006 he worked for two years as a Management Consultant and Interim Director. This year he will complete 40 years in the financial services industry.

Ann-Marie O’Dea - Executive Director

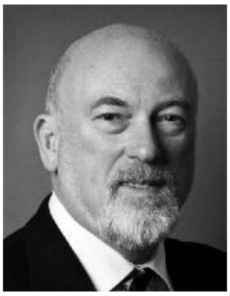
Ann-Marie is currently both Marketing Director for the Society and MD for its subsidiary company, Financial Advice Network Ltd. She has brought the Society a wealth of marketing experience gained from over 20 years in the industry. She held senior positions in various advertising and marketing agencies working on accounts such as Royal Bank of Scotland, Yorkshire Bank, Parcelforce and the N Brown Group. Since joining she has overseen the implementation of a 'through the line' website and is responsible for all communications issues by the Society.

Kim Harris - Executive Director

Kim has a long history with the Society, initially as a Non-executive Director and most recently as MD of the Society. In his role he carries accountability for the overall strategic and operational direction of the Society. Prior to joining the Shepherds Friendly full time, Kim had a successful career in the building society sector as well as being the owner of a financial services recruitment company.

Nemone Wynn-Evans - Non-Executive Director

Nemone has 15 years financial and commercial executive experience and has held roles at the London Stock Exchange, HSBC Investment Bank and KPMG Corporate Finance. She has most recently held the role of Finance Director on the main board of a stock exchange and in addition her board experience includes corporate governance, corporate finance, risk and compliance.



Geoffrey Ross - Non-Executive Director

Geoff has 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. His previous roles include with-profits actuary of Scottish Provident, Scottish Mutual and the Alba with-profits fund and appointed actuary of Scottish Mutual International. He is currently the with-profits actuary for the Reliance Mutual Insurance Society Ltd.

Chairman's Review
Incorporating the Strategic Report

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' 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%.

Turning now to operational business matters, the Society had an excellent year. More detail is given in the Strategic Report below 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.

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.

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.

Political and charitable donations

£244 to the Seashell Trust & Laura Crane Youth Cancer Trust.

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.

Strategic Report

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 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.

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

Chairman's Review - continued
Incorporating the Strategic Report

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.

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.

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.

J Hindle
Chairman
March 2015

Business performance
Including the Chief Executives Report

The business environment for small Friendly Societies continues to be quite difficult. Strong competition exists from the very large proprietary insurance companies with large marketing budgets and extensive distribution power. The impending implementation of the Solvency II capital requirements, governance and reporting regime is driving up costs. The intermediary distribution channel is becoming more costly in the field of income protection sales. Against this backdrop the Society did well to increase both new business volumes and existing business volumes in 2014 and to also achieve an increase in membership.

We will continue to seek innovative ways of distributing our products at a lower acquisition costs and wherever possible try to reduce regulatory and administrative expense in the business. The former will cause us to focus ever more strongly on sales via the internet and to existing members; the latter may remain difficult to achieve for the next 3 years unless the pace of market and regulatory change slows.

Corporate Governance Review

The Society seeks to comply with The UK Corporate Governance Code as annotated for Mutual Insurers. This involves the Society meeting a total of 257 corporate governance standards. The Board confirmed that during 2014 the Society had fully complied with the Code for 2014.

In 2014 the Society separated both the Audit & Risk and Nominations & Remuneration Committees into separate committees. In terms of Governance the Society believes this allows for greater focus on the objectives of each committee.

The Board

The Board meets a minimum of six times a year to conduct the normal business of the Society and in addition meets to discuss the future strategy of the business. Its primary responsibilities and decision taking areas are:-

- to set the strategic direction and aims of the Society
- to make appointments to and evaluate the Board
- to provide entrepreneurial leadership
- to monitor and review performance of the Society, the Board and the Executive Team
- to establish the framework of systems and controls and division of responsibilities
- to monitor risk via the framework of systems and controls
- to ratify and agree the decisions of the Board Committees
- to agree the appointment and remuneration levels of the Board
- to act in the best interests of the Society and its members and accounting to them
- to set the Society's values and standards

Direction of the day to day management of the Society is delegated to the Executive Directors who operate within defined authority limits.

Board Meeting Attendance

There was full attendance at all board meetings. The table below shows attendance at the Board and at the sub-committees -

Name	AGM	Board Meetings	With Profits	Group Audit	Group Risk	Nominations	Remuneration
Joanne Hindle - Chairman	1/1	6/6	-	-	-	6/6	6/6
Geoff Ross - Non Executive Director	1/1	6/6	4/4	-	4/4	-	-
Julie Meadows - Non Executive Director	1/1	4/4	-	3/5	3/4	-	-
Nemone Wynn-Evans - Non Executive Director	1/1	6/6	-	-	4/4	6/6	6/6
Martin Howard - Non Executive Director	1/1	4/4	3/4	5/5	-	-	-
Geoff Spencer - Chief Executive	1/1	6/6	-	-	-	-	-
Kim Harris - Chief Operating Officer	1/1	6/6	4/4	-	-	-	-
Ann-Marie O'Dea - Marketing Director	1/1	6/6	-	-	-	-	-

Statement of Responsibilities of the Board of Management

Friendly Society law and the Rules of the Society require the Board of Management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and its subsidiary as at the end of each financial year and the income and expenditure of the Society and its subsidiary for that period. In preparing these financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and,
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and its subsidiary and for ensuring that the Society and its subsidiary establishes and maintains systems of control of its business and records and of inspection and report in accordance with the Friendly Societies Act 1992.

It is also responsible for establishing satisfactory systems of control of the Society's business and records, and of inspection and report, to enable the Board and the Society to comply with the Friendly Societies Act 1992 and the Financial Services and Markets Act 2000.

The Board of Management has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with the above requirements.

The Role of the Board is to operate effectively and assume responsibility for the success of the Society, and the Board must be able to demonstrate the measures undertaken to achieve this. In doing so they have the following collective and personal responsibilities -

Collective Responsibilities

All Directors share responsibility for:

- Setting the strategy of the Society and any subsidiary company
- Approving plans to achieve the strategy
- Approving and monitoring budgets necessary to achieve the strategy
- Ensuring that the Society's internal systems and controls operate effectively
- Approving the annual accounts
- Establishing and overseeing the framework of delegation to the Chief Executive
- Approving key decisions in respect of all significant counterparty relationships and all significant new business ventures.
- Monitoring the Society's and any subsidiary companies' performance in relation to agreed plans, budgets and objectives
- Working effectively with other Directors
- Undertaking a formal evaluation of the Board's performance in the form of a questionnaire following each Board meeting, and reporting its findings to the Chairman. The results of these questionnaires shall be discussed at each board meeting
- Undertaking an annual assessment of the Board directors
- Presenting a balanced and understandable assessment of both the Society's current position and its forecast position in the Board's annual report
- Establishing, maintaining and reviewing the Society's system of internal financial, management and systems controls (including risk management)
- Ensuring that the affairs of the Society and any subsidiary company are conducted solvently, lawfully and in accordance with the Annotated Combined Governance Code and the rules of the regulators
- Maintaining an understanding of the views of the membership

Personal Responsibilities

Each Director accepts a personal responsibility to:

- Support the mission and values of the Society
- Support all Society policies
- Support the regulators' Principles
- Be a member of one or more Committees of the Board, when required
- Contribute to the decisions of any Committee of which they are a member from their skills and experience and share the responsibilities for all their decisions
- Maintain constructive relationships with Society staff
- Maintain an understanding of the views of the membership
- Attend at least 75% of all Board meetings in a rolling 24 month period to which they are invited, having previously read all relevant papers
- Not to be absent from two consecutive Board meetings other than for reasons of serious ill health
- Attend any training sessions provided for Directors
- Register any interest that may have a bearing on the Society's work and declare any potential or actual conflicts of interest as and when they arise
- Represent the Society positively to all external audiences
- Directors may be called on to contribute from their specific skills by liaison informally with any appropriate member of staff

The directors confirm that they have complied with the above responsibilities.

In addition to the Board of Management which has over-arching responsibility for management of the Society a number of Board Sub-committees operate to provide detailed governance of a range of issues.

The work of these committees is described below -

Nomination Committee

The Society's Nomination Committee is chaired by Joanne Hindle. Its main objectives are to take responsibility for ensuring that Nominations matters within the Group are appropriately managed and in the interest of the members and customers. Its full Terms of Reference are published on the Society's website.

The following were Committee members in 2014 -

Joanne Hindle (Chairman)

Nemone Wynn-Evans,

and the following management invitee -

Nasrin Hossain

During the year the Committee met 6 times. There was full member attendance at all meetings. As a result of its work the Committee is able to confirm the following -

- In respect of Board appointments the Society has adopted a transparent and independently managed process when making appointments to the Board. The process to appoint Non-Executive Directors contains the following elements:-
  - An open market search involving professional search agents and/or national newspaper advertising
  - Initial interview by at least two Board Directors
  - Second interview and assessment by a further two Board Directors
  - Final selection recommendation by Nominations and Remuneration Committee to full Board
  - If an Executive Director is appointed from outside the business, a similar process is followed. If an Executive Director is appointed internally, then the decision is based on past performance review by the CEO and then approval by the Board following a recommendation from Nominations Committee

- There is a clear division of responsibilities between the roles of Chairman and Chief Executive and they are conducted by different individuals. The respective roles are documented in the Board Manual.
- The Chairman meets the definition of an Independent Director.
- The Board has maintained a sound balance of different skill sets amongst its non-executive directors. The names of all directors, the positions they fulfil in the Society and their short CVs are shown in this Report.
- The Society is successfully fulfilling its diversity policy and has exceeded its target of at least 25% female directors by 2015.
- All Non-Executive Directors meet the definitions of independent directors.
- Martin Howard continued as Senior Independent Director for the Group.
- Three of the non - executive directors have other business interests and all have been assessed as not giving rise to conflicts of interest. It has also been established that they have sufficient time availability to fulfil their Shepherds Friendly roles properly.
- During 2014 the following changes occurred in the other business interests of the Chairman. Joanne moved from an employed relationship with an insurance company to one of a consultant on legal and compliance matters. This change was deemed to be not detrimental to the Society.
- Succession planning saw the successful appointment of a new CEO to replace Geoffrey Spencer who retired from the role at the end of 2014.
- The Society carried out a Board Appraisal process based on peer group assessment. Immediately after every Board meeting all Directors independently assess the effectiveness of the meeting. The data is analysed and reported back at the next Board meeting by the Chairman of the Nominations Committee along with any proposed improvement actions.
- Each Sub Committee assess its performance against their objectives annually and reports the results for assessment to the whole Board.
- Once a year a 360 degree personal assessment of all Board Directors is conducted on a peer group basis. The Society employs a professionally qualified HR Manager who plays a key role in analysing and presenting the outcomes which are then fed-back to individuals and form the basis for identifying what knowledge or skills gaps may exist and determines how they will be overcome.

Remuneration Committee

The Society's Remuneration Committee was chaired by Nemone Wynn-Evans. Its main objectives are to take responsibility for ensuring that Remuneration matters within the Group are appropriately managed and that the best interests of the members and customers are always considered and protected. Its full Terms of Reference are published on the Society's website.

The following were Committee members in 2014 -
Nemone Wynn -Evans (Chairman)
Joanne Hindle,
and the following management invitee -
Nasrin Hossain

During the year the Committee met 6 times. There was full member attendance at all meetings. As a result of its work the Committee is able to confirm the following –

- The Committee recommends to the Board the remuneration package for executive directors and is satisfied that remuneration is set at an appropriate level to attract and motivate directors of the right calibre without paying more than is necessary. No director is responsible for setting their own remuneration.
- A significant portion of executive director's remuneration is linked to corporate and personal targets which are stretching and designed to develop long term benefit for the members.
- The Committee uses an industry remuneration bench mark study to ensure executive director remuneration is fair when compared to similar size organisations.
- The remuneration level for non –executive directors is set at a level which reflects the time commitment and responsibility of the role. There is no remuneration for Non-executive directors related to performance related measures.
- The Committee confirms that all notice or contact periods for directors do not exceed one year.

Group Audit Committee

The Society's Group Audit Committee was chaired by Julie Meadows and towards the end of the year by Roger Oakes. Its main objectives are to assist the Board and the subsidiary company Board in exercising their responsibilities for compliance with statutory requirements and the integrity of the annual report and accounts. The GAC provides a forum for independent oversight of the Audit matters for the Society and any of its subsidiary companies.

Its full Terms of Reference are published on the Society's website.

The following were Committee members in 2014 -
Julie Meadows (Chairman)
Martin Howard
Roger Oakes (as a NED representing the subsidiary company)
and the following management invitee -
Timothy Robertson

During the year the Committee met 5 times. There was full member attendance at all meetings. The final meeting of the year was chaired by Roger Oakes as Julie Meadows had left her role by then. As a result of its work the Committee is able to confirm the following -

- The membership of the Committee consisted wholly of independent non-executive directors.
- The Committee was satisfied with the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The external auditors do not provide other consultancy service to the organisation thereby preserving their independence as auditors.
- By meeting with the external auditors to assess the conduct of the audit the Committee is able to understand any matters raised by the auditors which need improvement actions to be taken. The 2014 review of the Auditors Management Letter with the auditors raised no material concerns.
- The Auditors Management Letter confirmed that there were no significant issues to be considered in relation to the financial statements.
- The Committee recommended to the Board that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the company's performance.
- The Committee is responsible for periodically assessing whether the external auditor's performance is fully satisfactory and whether there should be a re-tendering exercise. In 2014 the Committee was satisfied from conversations with the audit firm and from the effectiveness of the audit process itself that the external auditors performed to the required standard. Therefore at the AGM the Board nominated the auditors to continue in their role. Unless there is dissatisfaction the external auditors can continue for up to 10 years before a re-tender exercise is undertaken.
- The Committee was responsible for reviewing and managing the relationship with the Internal Auditors. A view was reached that it was an appropriate time to re-tender for this function and as a result an exercise was carried out towards the end of 2014 which has led to the appointment of a new firm of internal auditors.
- All of the reports from the internal auditors in 2014 were satisfactory and no material shortcomings were identified.

Group Risk Committee

The Society's Group Risk Committee was chaired by Nemone Wynn-Evans. Its main objectives are to assist the Board and the subsidiary company Board in exercising their responsibilities for assessing and managing risks which face the Groups business entities. It thereby provides a forum for independent oversight of the risk management systems and controls for the Society and its subsidiary company.

Its full Terms of Reference are published on the Society's website.

The following were Committee members in 2014 -

Nemone Wynn - Evans (Chairman)
Julie Meadows
Roger Oakes
Geoffrey Ross,
and the following management invitees -
Justine Morrissey
Stephen Johnson
Timothy Robertson

During the year the Committee met 4 times. There was full member attendance at all meetings (with the exception of Julie Meadows who had left before the final meeting of the year). As a result of its work the Committee is able to confirm the following -

- The Group's processes to identify, assess and mitigate risks were continuously monitored throughout the year. The Committee looks primarily at the most significant risks facing the businesses but maintains awareness of all risks by accessing the computerised Risk Database.
- The Committee played a leading role in ensuring the Society develops a sound risk culture where staff throughout the organisation understand the importance of recognising risks and have an embedded risk culture.
- The Group's senior management systems and controls are documented in a range of Policy, Process and Procedure documents. The Committee is involved in reviewing and agreeing all the Policy Documents which are the building block for the more detailed Processes and Procedures.
- The Committee plays a leading role in independent oversight of the Society's process to produce its Own Risk Solvency Assessment and how it sets its risk appetite. As a result of its work the Committee was pleased to able to recommend to the Board adoption of the ORSA prepared by the management team.

With Profits Committee

The Society's With–Profits Committee was chaired by Geoffrey Ross. Its main objectives are to advise the Board on the exercise of discretion in the financial management of the Society's business and to support the Board in discharging its corporate governance responsibilities in relation to compliance with the Society's Principles and Practices of Financial Management. The Committee's Terms of reference are written based upon the regulatory requirements applicable to the management of With-profits life insurance business.

Its full Terms of Reference are published on the Society's website.

The following were Committee members in 2014 -

Geoffrey Ross (Chairman)
Martin Howard
Kim Harris
Stephen Moncrief,
and the following management/external invitees -
Christopher Critchlow
Justine Morrissey

During the year the Committee met 4 times. There was full member attendance at all meetings (Martin Howard stepped down from the Committee in October and was replaced by Stephen Moncrief - a senior independent professional). As a result of its work the Committee is able to confirm the following -

- The Committee is satisfied that the Society has operated in accordance with its Principles and Practices of Financial Management.
- Reviews of various activities and events in the context of the regulator's Conduct of Business Rules confirmed that the Society is operating appropriately within the Rules.
- The Committee is satisfied that it has advised the Board on the exercise of discretion in the financial management of the business.
- Discretion has been exercised in the management of With–Profit policyholder funds which has resulted in fair treatment of With-Profits policyholders.

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEPHERDS FRIENDLY SOCIETY LIMITED

We have audited the financial statements of The Shepherds Friendly Society Limited for the year ended 31 December 2014 which comprise the Group and Society Income and Expenditure Accounts, Group and Society Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement to maintain equalisation provisions.

This report is made solely for the Society's members, as a body, in accordance with 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 resume responsibility to anyone other than the Society's members as a body, for our audit work, for this report or other opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Board of Directors' Responsibilities Statement set out on page 10, the Board of Directors is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

Our assessment of risks of material misstatement

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- the operation and effectiveness of the Society's Member's system during the year;
- the valuation and ownership of the Society's investments at the year end and the recording of transactions throughout the year;
- the potential of new business strain given the level of growth in recent years; and
- the Group's compliance with applicable regulations;
- the application of revenue recognition accounting; and
- the risk of fraud arising from management override of internal controls.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We also determine a lower level of performance materiality which we use to determine the extent of testing needed 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.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Society to be £180,000 which is approximately 2% of premium income. We use premiums income to ensure the level of uncorrected misstatements does not materially impact the Society's solvency calculations.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement is that performance materiality should be 75% of materiality, namely £135,000. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected audit differences does not exceed our materiality of £180,000 for the financial statements as a whole.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all of the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The way in which we scoped our response to the risks identified above was as follows:

- In order to address risk around the operation of the Society's Members system during the year we have tested the operation of the controls over membership records and claims paid to members.
- In order to address risk around ownership of the Society's investments held at the period end, we confirmed the holdings to independent third party confirmations provided by the Society's Custodian.
- In order to address the risk around the valuation of the Society's investment we obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2014 and vouched these on a sample basis.
- In order to address the risk associated with the recording of investment transactions through the year ended 31 December 2014 we have tested a sample of transactions to independent documentation.
- In order to address the risk of new business strain we have considered the adequacy of the Group's reserves and reviewed the future business plans.
- In order to address the risk over the Group's compliance with its regulatory environment we updated our understanding of the regulatory requirements and reviewed the Group's correspondence with its regulators and statutory filings.
- As part of our testing of the member's system we performed testing relating to controls over the recognition of premium income and the process for the ensuring the accuracy of changes to member's records, including new members. We also performed substantive testing on a sample of premium income and analytical procedures to validate whether revenue recognition procedures complied with UK Generally Accepted Accounting Practice.
- Finally we performed analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override of controls.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and Society's affairs as at 31 December 2014 and of the income and expenditure of the Group and Society for the year then ended; and
- have been propery prepared in accordance with the Friendly Societies Act 1992.

Opinion on corporate governance statement

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the nine provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Board of Directors has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept;or
- the financial statements are not in agreement with the accounting records;or
- we have not recived all the information and explanations and access to documents that we require for our audit.

M P Burnett ACA
Senior Statutory Auditor
For and on behalf of Moore Stephens
Chartered Accountants & Statutory Auditor
March 2015

Society Income and Expenditure Account for the year ended 31 December 2014

INCOME	Notes	2014 £	2014 £	2013 £	2013 £
Technical account - Long term business					
Earned premiums					
Gross premiums written	2	7,254,266		6,584,731	
Outward reinsurance premiums		(7,319)		7,542	
Net premiums			7,246,948		6,577,189
Investment income					
Land and buildings		160,192		430,122	
Other investments		1,630,048		1,622,670	
Gains/Losses on the realisation of investments		316,554		3,087,947	
			2,106,794		5,140,739
Unrealised gains/losses on investments			1,910,989		4,255,709
Total technical income			**11,264,731**		**15,973,637**

EXPENDITURE	Notes	2014 £	2014 £	2013 £	2013 £
Claims incurred					
Claims paid - gross amount		8,294,815		7,751,603	
Change in the provision for claims		9,343		47,651	
			8,304,157		7,799,254
Changes in other technical provisions					
Long term business provision transfer	10		(1,638,875)		3,312,615
Other expenditure **Net operating expenses**					
Other operating expenses	3	4,753,099		3,847,702	
Investment expenses		107,523		67,314	
			4,860,621		3,915,016
Taxation	7		-		-
Actuarial (gain)/loss on pension scheme	14		277,000		(6,000)
Transfer: Fund for Future Appropriations			(538,172)		952,752
Total technical expenditure			11,264,731		15,973,637
Balance on technical account - long term business			**-**		**-**

The attached notes form part of these accounts. All income and expenditure relates to continuing operations of the Society. There were no recognised gains and losses in 2014 or 2013 other than those shown in the accounts.

Group Income and Expenditure Account for the year ended 31 December 2014

INCOME	Notes	2014 £	2014 £	2013 £	2013 £
Technical account - long term business					
Earned premiums					
Gross premiums written	2	7,254,266		6,584,731	
Outward reinsurance premiums		(7,319)		(7,542)	
Net Premiums			7,246,948		6,577,189
Investment income					
Land and buildings		160,192		430,122	
Other investments		1,598,243		1,490,372	
Losses on the realisation of investments		316,554		3,087,947	
			2,074,989		5,008,441
Unrealised gains/losses on investments			1,910,989		4,255,709
Other technical income	1		1,123,281		988,252
Total technical income			**12,356,207**		**16,829,591**

EXPENDITURE	Notes	2014 £	2014 £	2013 £	2013 £
Claims incurred					
Claims paid - gross amount		8,294,815		7,751,603	
Change in the provision for claims		9,343		47,651	
			8,304,157		7,799,254
Changes in other technical provisions					
Long term business provision transfer	10		(1,638,875)		3,312,615
Net operating expenses					
Other operating expenses	3	4,040,326		3,050,273	
Investment expenses		107,523		67,315	
			4,147,849		3,117,588
Other technical charges	1		1,751,945		1,600,103
Taxation	7		0		-
Actuarial (gain)/loss on pension scheme	14		277,000		(6,000)
Transfer: Fund for Future Appropriations	10		(485,869)		1,006.031
Total technical expenditure			**12,356,207**		**16,829,591**
Balance on technical account - long term business			-		-

The attached notes form part of these accounts. All income and expenditure relates to continuing operations of the Society. There were no recognised gains and losses in 2014 or 2013 other than those shown in the accounts.

Society Balance Sheet as at 31 December 2014

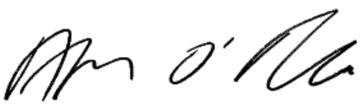
ASSETS	Notes	2014 £	2014 £	2013 £	2013 £
Investments					
Land and buildings	8	2,660,000		5,760,000	
Other financial investments	8	73,928,252		72,624,512	
			76,588,252		78,384,512
Debtors					
Debtors arising out of direct insurance operations with members		63,115		34,035	
Other debtors		18,287		200,000	
			81,402		234,035
Other assets					
Tangible assets	11	210,873		197,067	
intangible assets	11	95,623		109,200	
Cash at bank and in hand		1,316,395		1,609,193	
			1,622,892		1,915,459
Prepayments and accrued income					
Accrued interest and rent		35,165		40,363	
Deferred acquisition expenses	1	600,903		708,656	
Other prepayments and accrued income		472,094		213,197	
Total prepayments and accrued income			1,108,161		962,216
Total assets excluding pensions asset			79,400,707		81,496,223
Pension scheme surplus/liability	14		(449,000)		(295,000)
Total Assets			**78,951,707**		**81,201,223**

LIABILITIES	Notes	2014 £	2014 £	2013 £	2013 £
Fund for future appropriations	10	9,780,128		10,360,288	
			9,780,128		10,360,288
Technical provisions					
Long term business provision	10	67,976,278		69,615,153	
Claims outstanding		165,057		155,714	
			68,141,335		69,770,867
Provisions for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		137,221		150,767	
Other creditors, including taxation & social security		350,156		407,035	
			487,377		557,802
Accruals and deferred income			542,867		512,266
Total Liabilities excluding pension liability			**78,951,707**		**81,201,223**

The attached notes form part of these accounts

Approved by the Board on 30th March 2015

J Hindle Chairman



A M O'Dea Director

Group Balance Sheet as at 31 December 2014

ASSETS	Notes	2014 £	2014 £	2013 £	2013 £
Investments					
Land and buildings	8	2,660,000		5,760,000	
Other financial investments	8	73,428,252		72,124,512	
			76,088,252		77,884,512
Debtors					
Debtors arising out of direct insurance operations with members		63,115		34,035	
Other debtors	9	164,570		0	
			227,685		34,035
Other assets					
Tangible assets	11	233,222		213,391	
Intangible assets	11	260,623		304,200	
Cash at bank and in hand		1,376,355		1,661,536	
			1,870,200		2,179,127
Prepayments and accrued income					
Accrued interest and rent		35,165		40,365	
Deferred acquisition expenses	1	600,903		708,656	
Other prepayments and accrued income		484,346		228,300	
Total prepayments and accrued income			1,120,414		977,321
Total assets excluding pensions asset			79,306,551		81,074,995
Pension scheme surplus/liability	14		(449,000)		(295,000)
Total Assets			**78,857,551**		**80,779,995**

LIABILITIES	Notes	2014 £	2014 £	2013 £	2013 £
Fund for future appropriations	10	9,606,891		10,134,749	
			9,606,891		10,134,749
Technical provisions					
Long term business provision	10	67,976,278		69,615,153	
Claims outstanding		165,057		155,714	
			68,141,335		69,770,867
Provisions for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		137,221		150,767	
Other creditors, including taxation and social security		429,237		198,726	
			566,458		349,493
Accruals and deferred income			542,867		524,886
Total Liabilities excluding pension liability			**78,857,551**		**80,779,995**

The attached notes form part of these accounts

Approved by the Board on 30th March 2015

J Hindle Chairman

A M O'Dea Director

Notes to the Accounts

1 Accounting policies

Basis of Accounting

The accounts have been prepared in accordance with the Friendly Societies Act 1992, the Friendly Societies (Accounts and Related Provisions) Regulations 1994, with applicable accounting standards and with the Statement of Recommended Practices issued by the Association of British Insurers "The ABI Sorp" in December 2005 and revised in December 2006.

Basis of Consolidation

The Group Accounts comprise the assets, liabilities, and income and expenditure account transactions of the Society and its subsidiary. The on-going results of the subsidiary are included with Other Technical Income and Other Technical Charges. The net results are included in the Fund for Future Appropriations for the Group. The activities of the Society and Group are accounted for in the Income and Expenditure Technical Account.

Premium Income

Premium Income is included in the income and expenditure account on the basis of premiums due from members during the year. Reinsurance premiums are included when they are payable.

Claims

Claims are included on the following basis:

- Maturities when they become due
- Deaths when notified to the Society
- Surrenders when the policies cease to be included in the long term business provision
- Reinsurance receipts are brought into account to match the recognition of the claim

Investment Income

Investment income includes dividends, interest, rents and realised gains and 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 balance sheet date and the valuation at the last balance sheet date.

Investments

These are shown on the balance sheet at the following values:

- Land and buildings: at the last independent professional valuation
- Quoted investments: at the mid-market value at the accounting date
- Authorised unit trusts: at the published bid prices at the accounting date

No deprecation or amortisation is provided in respect of freehold or leasehold properties. As properties are included in the financial statements at their open market values the Board consider that no depreciation is required to give a true and fair view. It would be neither practical or of real value to determine depreciation or amortisation taken into account in arriving at open market values.

Tangible & Intangible Fixed Assets

Tangible and intangible assets are capitalised and depreciated by equal annual instalments over their estimated useful life. The principal rates use for this purpose are as follows:

- Computer equipment is depreciated between two and four years
- Other equipment is depreciated over four years
- Intangible Assets are amortised over five years

Technical Provisions

The provisions are determined by the Society's Actuarial Function Holder following his annual investigation of the long term business. The methods and assumptions used in the valuation have been approved by the Board.

Tax attributable to long term business

Taxes are provided for at the current rates in respect of the taxable element in the Society's business. As a registered Friendly Society the Society is only subject to tax on part of its life and endowment business.

Deferred Taxation

In accordance with Financial Reporting Standard 19 deferred taxation is provided for in full on all material timing differences that have originated but not reversed at the balance sheet date.

Deferred tax assets are recognised to the extent that it is considered that more likely than not they will be recovered.

Deferred Acquisition Expenses

For single premium and Holloway (sickness) policies no acquisition expenses are deferred. For regular premium assurance policies the deferred acquisition expenses have been determined using a Zilmerisation approach and have been calculated on the basis of a prudential assessment of their recovery from the margins contained in the future premiums.

Other technical income and technical charges

Other technical income and charges in the Group refers to income and expenditure incurred by the subsidiary.

Foreign Currencies

During the year the Society 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 balance sheet date. All differences are recognised in the technical account.

Pensions

The Society operates a defined contribution scheme for the majority of employees. Employer's contributions are based on a fixed percentage of basic salary charged to the technical account.

A defined benefit scheme is also in operation, although now closed to new entrants. The pension scheme surplus or liability recognised in the balance sheet is the value of the scheme's assets less the present value of the scheme's liabilities. The liabilities are valued on an actuarial basis using the Projected Unit Method, requiring estimates of future cashflows to be made, discounting them to present value using the discount rate based on AA rated corporate bonds. The overall expected return assumption is calculated as the weighted average of the individual expected return assumptions for each of the major asset classes.

Notes to the Accounts

2 Premium Analysis

All premiums are written in the United Kingdom on a direct basis and relate to individual business.
The following note refers to the Society and not the Group.

Long Term Life Business	2014 £	2014 £	2013 £	2013 £
Non Profit Policies				
Periodic premiums	1,665,335		1,610,600	
Reinsurance	(7,319)		(7,542)	
		1,658,016		1,603.058
With Profit Policies				
Periodic premiums	3,791,681		3,804,547	
Reinsurance	-		0	
		3,791,681		3,804,547
Single premium	1,797,250		1,169,584	
		1,797,250		1,169,584
		7,246,948		**6,577,189**

Annualised new business written: Society and Group	2014 £	2013 £
Single Premium	179,725	116,958
Regular Premium	1,663,166	959,054
	1,842,891	**1,076,012**

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 Society which provide for the payment of one premium only.
The difference in single premium is due to the government's decision to stop the Child Trust Fund accounts.

3 Society and Group Net Operating Expenses

	Society 2014 £	Group 2014 £	Society 2013 £	Group 2013 £
Acquisition costs	2,849,285	2,746,472	2,558,110	2,216,177
Changes in deferred acquisition cost	107,753	107,753	(296,541)	(296,541)
Administration expenses	1,796,060	1,186,101	1,586,133	1,130,637
	4,753,099	**4,040,326**	**3,847,702**	**3,050,273**

Also included in the operating expenses are:

	Society 2014 £	Group 2014 £	Society 2013 £	Group 2013 £
Auditor's renumeration and expenses for audit services:	27,200	30,200	26,500	29,500
Non-audit services	0	0	780	780
	27,200	**30,200**	**27,280**	**30,280**

Notes to the Accounts

4 Staff Costs

The staff costs for the Group, including directors' fees, for the year, were:

	2014 £	2013 £
Wages and salaries	1,817,168	1,655,414
Social security costs	187,746	184,037
Pension costs	186,779	115,073
	2,191,693	**1,954,524**

	2014	2013
Average number of employees:		
Sales	5	10
Administration	35	25
Board	7	7
	47	**42**

5 Board Remuneration

	Salary £	Bonus £	Other Benefits £	Total 2014 £	Total 2013 £
G Spencer	97,090	55,575	190	152,855	164,262
K Harris	81,760	10,000	8,160	99,920	156,888
A O'Dea	81,760	34,600	7,660	124,020	88,063
J Hindle	26,400		6,086	32,486	32,403
G Ross	22,400		1,225	26,625	26,297
J Meadows	18,667		7,003	25,670	7,533
M Howard	21,167		2,890	24,057	7,910
N Wynn-Evans	22,400		1,285	23,685	6,679
Total	**371,644**	**100,175**	**34,500**	**506,319**	**490,035**

Other benefits include contributions to money purchase schemes of £19,015 plus car allowance of £26,629 for executive directors. Non-executive directors receive expenses for travel to and from Board meetings at Head Office. These are taxed through PAYE and are included under 'Other Benefits'.

6 Related Party Transactions

Advantage has been taken of the exemption in FRS 8 not to disclose transactions with entities that are part of the Shepherds Friendly group. A number of the Society's directors are also members of the Society and pay annual premiums, all such transactions involving directors are conducted at arm's length.

7 Taxation

The Society has tax losses to carry forward and as such there is no tax liability for the current year. These losses would normally create a deferred tax asset but they cannot be recognised under FRS 19 on the basis that foreseeable recovery cannot be determined with reasonable certainty.

8 Society Investments (Group)

Land and buildings.

	Cost 2014 £	Market Valuation 2014 £	Cost 2013 £	Market Valuation 2013 £
Freehold properties partly occupied by the Society	1,319,540	1,150,000	1,319,540	1,150,000
Other investment properties	1,597,425	1,510,000	4,925,425	4,610,000
Long leasehold	0	0	0	0
	2,916,965	**2,660,000**	**6,244,965**	**5,760,000**

Each property is fully valued at least once every five years on a rotating basis, on an open market existing use basis. In between the full valuations a 'desktop' valuation is undertaken. Properties were not valued in 2014. In 2013 valuations were undertaken by Matthews and Goodman, Chartered Surveyors.

The full value of the property occupied by the Society is £1,150,000, of which the Society occupies two thirds (2013 - two thirds).

Other financial investments

	Cost 2014 £	Market Valuation 2014 £	Cost 2013 £	Market Valuation 2013 £
UK and overseas listed shares	42,553,056	47,308,099	40,546,045	46,314,167
UK listed fixed interest securities	21,743,696	22,741,031	22,872,709	19,586,987
UK Property Investment Fund	3,060,238	3,379,122	3,768,191	3,379,122
	67,356,990	**73,428,252**	**67,186,945**	**69,280,276**

Notes to the Accounts

Investment in subsidiary.

The Society owns 100% of the ordinary share capital of Shepherds Network Limited.

	Shares in subsidiary £	Loans to subsidiary £
As 31 December 2014	500,000	137,000

The Society has made a loan to Financial Advice Network Limited which is repayable over three years. Subsequent to the period end the company changed its name to Financial Advice Network Limited, effective from 21 January 2014.

9 Other Debtors (Group)

	2014 £	2013 £
Other debtors	164,570	0
	164,570	**0**

10 Movements in Provisions and Appropriations

Fund for Future Appropriations (Group)

	2014 £	2014 £	2013 £	2013 £
Balance at 1 January		10,134,747		9,128,717
Transfer from/to income and expenditure account	(485,869)		1,006,031	
Transfer from/to revaluation reserve	(41,987)		-	
		(527,856)		1,006,031
Balance at 31 December (Group)		**9,606,891**		**10,134,747**
Loss realised in subsidiary		173,237		225,541
Balance at 31 December (Society)		**9,780,128**		**10,360,288**
Less pension asset (FRS 17)		449,000		295,000
Balance at 31 December less pension asset		**10,229,128**		**10,655,288**

Long Term Business Provision

	2014 £	2013 £
Balance at 1 January	69,615,153	66,302,538
Transfer from income and expenditure account	(1,638,875)	3,312,615
Balance 31 December	**67,976,278**	**69,615,153**

The technical provisions were calculated by the Society's Actuarial Function Holder, using assumptions as follows:

a Life and Endowment Fund

The net premium valuation method was adopted using a per annum gross interest rate of 2.50% for all With Profits business (2013:2.50%) and 1.75% (2013:2.75%) for all non-profit business. Mortality based on A67/70 tables with a four year deduction for female lives was assumed other than the Society's Over 50's business where an assumption of 225% AXC00 was used (2013:100% A67/70 with a four year deduction for female lives, apart from Over 50's where 175% AXC00 was used). Lapses were assumed to apply at a rate of 2.5% a year to Over50s business.

Lapses were assumed to apply at a rate of 5% a year to Over 50's business. (2013: 2.50%). Old table assurances were valued as the maximum sum assured under the profit contracts. With profit bonds and ISA were taken at face value as at 31st December 2014 subject to a minimum of the amount payable on death excluding any allowances for final bonus.

Unitised with-profits pension policies were valued at the face value of the units allocated at 31st December 2014.

For business valued using the net premium methodology, the difference between the net and office premium provides an implicit allowance for the future expenses. Net premiums are limited to 90% of the office premium to provide a margin for expenses and profits.

For business valued using a net premium methodology a sillier modification of 3.0%pa of the sum assured was made in 2014 (2013: 3.0%pa Zillmer modification).

b Sickness Fund

Sickness benefits were valued by a gross premium valuation method using an interest rate of 2.25% for Holloway business (2013: 2.00%) and 1.50% for pure IP business (2013: 2.75%) per annum. Sickness rates were based in the following proportions applied to the duration of sickness calculated by reference to 100% inceptions and recoveries of standard CMIR12 sickness tables:

Young Saver	25%	(2013: 25%)
Adult Saver	75%	(2013: 75%)
SIPP	125%	(2013: 125%)
Other income protection	75%	(2013: 75%)

For Premier Protect reserves were estimated using case estimates.

For 2014, inception rates are based on inceptions as given in the table above allowing for recoveries at 80% CMIR to age 35, 90% for ages 35-40, 100% for ages 40-45 and 110% thereafter.

An allowance for expenses of 15% of each premium was allowed for on Adult Saver contracts and SIPP contracts. 40% of the office premium on Premier Protect and the Society's other income protection contracts (excluding Young Holloway) that were written before 2012 was explicitly reserved for expenses and profit. On business written since 2011 the allowance has been reduced from 40% to 15%.

Lapses were assumed at an annual rate of 10% a year (2013:15%) on the Society's pure income protection business. No lapses were assumed on the Society's Holloway business.

c Members' Individual Credit Funds

Members' individual credit funds were taken at face value at 31 December 2014 and allowing for members' allocations (but excluding interest) at that date discounted at a rate of 0.5% to maturity (2013: 0.5%).

d Pension Fund

Unitised with profits pension policies were valued at the face value of the units allocated at 31st December 2014 including bonuses added throughout 2014.

Notes to the Accounts

11 Tangible and Intangible Assets

Tangible assests cost	Motor Vehicles £	Equipment and Furniture £	Total £	Group £
At 1 January 2014	76,761	532,970	609,731	633,258
Additions	24,890	127,085	151,975	167,539
Disposals	(23,000)	0	(23,000)	-23,000
At 31 December 2014	78,651	660,055	738,706	777,797
Depreciation				
At 1 January 2014	34,938	377,726	412,664	419,867
Provided in year	19,544	110,958	130,502	140,041
Disposals	(15,333)	0	(15,333)	-15,333
At 31 December 2014	39,149	488,684	527,833	544,575
Net book value				
31 December 2014	**39,502**	**171,371**	**210,873**	**233,222**
31 December 2013	**41,823**	**155,244**	**197,067**	**213,391**

Intangible assests cost	Equipment and Furniture £	Total £	Group £
At 1 January 2014	122,731	122,731	362,731
Additions	0	0	0
Disposals	0	0	0
At 31 December 2014	122,731	122,731	362,731
Depreciation			
At 1 January 2014	13,531	13,531	58,531
Provided in year	13,576	13,576	43,576
Disposals	0	0	0
At 31 December 2014	27,107	27,107	102,107
Net book value			
31 December 2014	**95,623**	**95,623**	**260,623**
31 December 2013	**109,200**	**109,200**	**304,200**

12 Statement in accordance with Section 77 of the Friendly Societies Act 1992

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

1 The Actuarial Function Holder and the With Profits Actuary during the year was Mr C Critchlow BSc FIA, an employee of OAC plc. Neither Mr Critchlow, his wife or his children were members of the Society at any time during 2014.

2 Neither Mr Critchlow, his wife or children had any financial interest in any transaction with the Society at any time during 2014, other then 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 and his support team. The amount payable in this respect amounted to £223,783 inclusive of VAT (2013: £186,841). No other benefits, emoluments, pensions or compensation were paid.

4 Mr Critchlow did not receive, and will not receive, any other financial benefit.

13 Operating Lease Commitments

Annual leases under non-cancellable operating leases are as follows:

	2014 £	2013 £
Annual commitments under operating leases which expire:	38,556	27,380
Between two and five years	**38,556**	**27,380**

14 Staff Pension Scheme: Society and Group

The Society operates 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. The most recent formal actuarial valuation was carried out as at 5 April 2014. The results have been updated to 31 December 2014 by a qualified independent actuary.

The assumptions used were as follows:

Final Assumptions Description	Year ending 31 December 2014	Year ending 31 December 2013
Discount Rate	3.50% pa	4.40% pa
Retail price inflation	3.20% pa	3.60% pa
Consumer price inflation	2.20% pa	2.60% pa
Salary increases	3.00% pa	3.00% pa
Rate of increases of pensions in payment	3.10% pa	3.40% pa
-RPI 5%	2.30% pa	2.40% pa
-RPI 2.5%	2.20% pa	2.60% pa
Rate of increase for deferred pensioners		
Expected return on assests	5.50% pa	5.80% pa

The overall expected return on assets assumption of 5.50% pa as at 31 December 2014 has been derived by calculating the weighted average of the expected rate of return for each asset class. The following approach has been used to determine the expected rate of return for each asset class:

- fixed interest securities, current market yields
- equities, Net dividend yield on FTSE all share index plus RPI inflation plus dividend growth assumption of 1.5% less 0.5% investment expenses
- cash, current Bank of England base rate.

Demographic Assumptions Description	Year ending 31 December 2014	Year ending 31 December 2013
Mortality (Pre retirement)	SP2PA CMI_2014_M/F [1.00%] (yob)	AMC00/AFC00
Mortality (Post retirement)	SP2PA CMI_2014_M/F [1.00%] (yob)	S1PA CMI_2013_M/F [1.00%] (yob)

Life Expectations	Year ending 31 December 2014		Year ending 31 December 2013	
	Male	Female	Male	Female
Life expectancy for an individual aged 65 in 2014	22.0 years	24.0 years	21.9 years	24.1 years
Life expectancy at age 65 for an individual aged 45 in 2014	23.3 years	25.5 years	23.3 years	25.7 years

Notes to the Accounts

15 Assets

The assets of the Scheme are invested in a diversified portfolio.

Asset Class	Year ending 31/12/2014		Year ending 31/12/2013	
	Market Value £'000	% of total Scheme assets	Market Value £'000	% of total Scheme assets
Equities	0	0%	1,761	46%
Bonds	1,797	44%	1,576	41%
Gilts	0	0%	441	11%
Cash	29	1%	76	2%
Diversified growth funds	2,295	56%	0	0%
Total	4,121		3,854	

Amounts recognised in statement of total recognised gains and losses:	Year ending 31/12/2014	Year ending 31/12/2013
The actual return on assets over the period was	400	207

Reconciliation to the Balance Sheet	Year ending 31 December 2014 £'000	Year ending 31 December 2013 £'000
Description		
Market Value of assets	4,121	3,854
Present Value of liabilities	4,570	4,149
Surplus/(Deficit) in the scheme	(449)	(295)
Irrecoverable Surplus	0	0
Pension asset/(liability) recognised in the balance sheet before allowance for deferred tax	**(449)**	**(295)**

Analysis of changes in the value of the Scheme liabilities over the year	Year ending 31 December 2014 £'000	Year ending 31 December 2013 £'000
Value of liabilities at the start of the year	4,149	4,207
Service cost	18	20
Interest cost	178	175
Member contributions	5	5
Business contributions	0	0
Settlements	0	0
Curtailments	0	0
Past service cost	0	0
Benefits paid	(237)	(280)
Actuarial (gains)/losses	457	22
Value of liabilities at the end of the year	**4,570**	**4,149**

Analysis of changes in the value of the Scheme assets over the year	Year ending 31 December 2014 £'000	Year ending 31 December 2013 £'000
Market value of assets at the start of the year	3,854	3,797
Expected return on Scheme assets	220	179
Actuarial gains/(losses)	180	28
Employer contributions	99	125
Member contributions	5	5
Business combinations	0	0
Settlements	0	0
Benefits paid	(237)	(280)
Market value of assets at the end of the year	**4,121**	**3,854**

Amounts recognised in profit and loss Analysis of amounts charged to operating profit	Year ending 31 December 2014 £'000	Year ending 31 December 2013 £'000
Current service cost	18	20
Past service cost	0	0
Previously unrecognised surplus deducted from past service costs	0	0
(Gain)/loss on business combinations	0	0
(Gain)/loss on business settlements	0	0
Previously unrecognised surplus deducted from settlement loss	0	0
(Gain)/loss on curtailments	0	0
Previously unrecognised surplus deducted from past curtailment loss	0	0
Net (gain)/loss charged to P&L account	**18**	**20**

Analysis of amounts charged to other financial	Year ending 31 December 2014 £'000	Year ending 31 December 2013 £'000
Interest on liabilities	(178)	(175)
Expected return on scheme assets	220	179
Net (charge)/credit to other financial income	**42**	**4**
Total P&L charge before deduction for tax	**(24)**	**16**

Amounts recognised in Statement of Total Rec	Year ending 31 December 2014 £'000	Year ending 31 December 2013 £'000
Actuarial gains/(losses)	(227)	6
Limit on recognition of assets	0	0
Total amount recognised in STRGL	**(227)**	**6**

Notes to the Accounts

History of assets, liabilities, experience gains and losses	Year Ended 31/12/2014 £'000	Year Ended 31/12/2013 £'000	Year Ended 31/12/2012 £'000	Year Ended 31/12/2011 £'000	Year Ended 31/12/2010 £'000
Market Value of Scheme	4,121	3,854	3,797	3,803	4,007
assets	4,570	4,149	4,207	4,028	3,911
Value of Scheme liabilities	(449)	(295)	(410)	(225)	96
Surplus/(Deficit) in the Scheme					
Gains/(losses) arising on Scheme liabilities:	0	40	(181)	(11)	83
Due to experience	0%	1%	(4)%	0%	2%
% of liabilities	(457)	(62)	(150)	(187)	244
Due to change of basis	(10)%	(1)%	(4)%	(5)%	6%
% of liabilities					
Experience gains/(losses):	180	28	148	(150)	253
Arising on Scheme assets	4%	1%	4%	(4)%	6%
% of assets					

The cumulative amount of actuarial gains and losses in the STRGL (since 2010) is -£710,000.

Future Funding obligation

The last actuarial valuation of the Scheme was performed by the previous Actuary for the Trustees as at 5th April 2012. The Society agreed to pay annual contributions of 28.6% of pensionable salaries and £75,000 pa until 5th April 2019. The Society expects to pay £98,600 to the Scheme during the accounting year beginning 1 January 2014.

16 Capital Statement

The Society adopted Financial Reporting Standard 27 (FRS27), issued in December 2004. The disclosure requirements of the standard largely focus on with-profit funds that fall under the Prudential Regulation Authority realistic reporting regime and the Society is not required to report under such regime, therefore less detail is required in order to comply with FRS 27 Life Assurance. The Society is required to hold sufficient capital to comply with the Individual Capital Assessment, as amended by the Individual Capital Guidance.

The Society maintains an efficient capital structure consistent with the Society's risk profile and the regulatory and market requirement of its business.

In reporting our financial strength, capital and solvency is measured using the regulations prescribed by the PRA. These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the society.

Capital Management policies and objectives
The Company's objectives in managing its capital are;

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business,
- To maintain financial strength to support new business growth,
- To satisfy the requirements of its policyholders and regulators,

Restrictions on available capital resources
It remains the intention of management to ensure that there is adequate capital to exceed the Society's regulatory requirements

Capital Position Statement

	2014 £000	2014 £000	2013 £000	2013 £000
Society's reserves		9,780		10,360
Adjustment on regulatory basis:				
Inadmissible assets of regulated related undertaking	(637)		(700)	
DAC	(601)		(709)	
Other asset adjustment	449		295	
Expense closure reserve and life & sickness bonus and interest surplus not in R&A	-		-	
		(789)		(1,114)
Total available capital resources		**8,991**		**9,246**

Capital resource sensitivities:

The capital position is sensitive to changes in market conditions, which may affect the valueof assets and liabilities. The key risks are a fall in equity and/or property values and a sharprise in interest rates. Following the events of 2013 and 2014 the Society's finances remainstrong but the Board of Management remains of the opinion that it has sufficient capital tocope with a sudden fall in asset values, such as a stock market crash, and if necessaryimmediate action would be taken to reduce the impact. These actions may include theimmediate sale of higher risk assets or reducing overheads.

The Board of Management is fully aware of the impact of changes in market conditions,and the sensitivities have been included in the calculations made in arriving at the capital requirement in the Individual Capital Assessment.

Glossary

Corporate Governance

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

Deferred Acquisition Expenses (DAC)

Certain costs of acquiring new business are spread over the life of the policy, and are treated as an asset in the accounts.

FRS 17

A Financial Reporting Standard issued by the Accounting Standards Board. FRS 17 states how a firm's pension fund should be accounted for.

Fund for Future Appropriations (FFA)

The accumulated profits of the Society. Equivalent to Retained Profits in a company's accounts.

Long Term Business Provision (LTBP)

An actuarial calculation of the amounts due to policyholders. It is also known as technical provisions.

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.

Retail Distribution Review (RDR)

RDR is a key part of the FCA consumer protection strategy. It is establishing a reslient effective and attractive retail investment market consumers can have confidence and trust in at a time when they need help and advice with retirement and investment planning.

Solvency II

Solvency II Directive is a fundamental review of the capital adequecy 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.

Smoothing

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

Valuation methods

Note 11 of the Report and Accounts refers to the assumptions that the actuary uses in calculating the Long Term Business Provision. The references are to standard actuarial tables for calculating death and sickness rates.

With Profits Fund

All members/policyholders participate in the profits and losses of the fund.

Zillmerisation

This is an actuarial method of calculating the Deferred Acquisition Cost.

Notes

Shepherds FRIENDLY
Mutual Solutions. Mutual Benefits. Your Future.

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