Shepherds Friendly

Your modern mutual

31 December 2015

The Shepherds Friendly Society Limited

Report of the Board and Financial Statements

www.shepherdsfriendly.co.uk

Contents

The Shepherds Friendly Society Limited

Board:

Joanne Hindle	Chairman
Nemone Wynn-Evans	Non Executive Director and Deputy Chairman
Geoffrey Ross	Non Executive Director
Barry Bibby	Non Executive Director (Appointed July 2015)
Ann-Marie O'Dea	Chief Executive Officer
Kim Harris	Executive Director
Justine Morrissey	Executive Director (Appointed July 2015)

Company Secretary:	**Tim Robertson**
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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:	Gateway Assure Ltd
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.

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.

Nemone Wynn-Evans - Non-Executive Director and Deputy Chairman

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.

Ann-Marie O'Dea - Chief Executive Director

Ann-Marie 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.

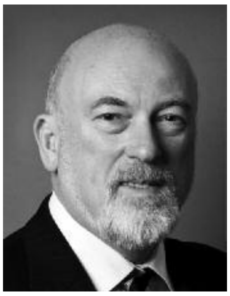
Justine Morrissey - Executive Director

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.

Barry Bibby - Non-Executive Director

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.



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.

The Strategic Report
Including the Chairman's Statement

Strategic Report

The purpose of the strategic report is to provide Members of the Society with information that will enable them to assess how the directors have performed their duties in the interests of the Members. The strategic report reflects the collective view of the Society's Board of Management and includes the Viability Statement.

Information in the report complements the financial statements. In doing so, it enables the annual report to be a more cohesive document. In complementing the financial statements, it provides information about the business and its development, performance or position that is not reported in the financial statements but which is relevant to the Members' evaluation of past results and assessment of future prospects.

This information is provided below under the sub-headings of Chairman's Report, Chief Executive's Business Review and Viability Statement.

Chairman's Report

2015 was a landmark year in the United Kingdom insurance industry because it was the final year for preparations to switch to an entirely new regulatory regime, transposed into UK law as a result of the European Union's Solvency II Directive which came into force on 1st January 2016. This change has been seven years in the making and has been the response by European Governments to issues that were seen as the root causes of the 2007 financial crisis which was so damaging to many countries. As such, and notwithstanding the substantial costs of implementing it, we welcome its arrival and the contribution it makes to the protection of consumers and policyholders going forwards. Later in my report I will highlight some of the major changes resulting from the Directive and how they will affect the Society.

In my report last year, I identified as threats to global recovery the weakening economy in China, the collapse in oil prices, the emergence of so-called Islamic State, and the threat to the Eurozone from Greece exiting the Euro. Other than the temporary resolution of the Greek problem, the others have worsened, and been added to by the European migrant crisis and the potential exit of the United Kingdom from the European Union. As a consequence, investment markets suffered a turbulent year which is likely to continue into 2016.

Against the above backdrop investment markets did not give attractive returns in 2015 and the FTSE 100 index ended the year 4.9% down on the 2014 year end (which itself was 2.7% below the 2013 year end). In the USA the Dow Jones ended the year down 2.3%. As discussed later in this report "market risk" is one of the most serious risks we face and managing our exposure to it remains a significant challenge for the Board.

The Shepherd's long term insurance fund is invested across a range of asset classes. The fund as a whole achieved a return of 4.39% (excluding CTF funds), a pleasing result which is in-line with the Sector average. The Society's Child Trust Fund is invested on a unit linked basis in a Legal & General managed FTSE 100 Tracker Fund and in 2015 achieved a return of 1.26%.

There is nothing we can do to affect global political and economic events and therefore we have to develop and execute strategies which we believe in the medium to long term will enable us to meet the expectations our Members have of us in respect of their Plans and Investments.

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.

Arising from our strategy work is a statement of Strategic Intent which says our intention is -

"To continue to write increasing volumes of profitable new business, this mitigates our biggest risk, and fulfils Member expectations by meeting their plans' objectives".

To achieve this, the Society seeks to write more new business across both With-Profits and Non-Profit Plans. This allows it to allocate its expenses over an increasing number of plans, and the impact on any policy of these expenses remains at a level such that the member's expectations are met. This is both in terms of bonus levels under With-Profit Plans and security of payment under Non-Profit Plans.

The Society will remain diversified across distribution channels so that new business is not solely dependent on one route. As such it is resilient to market changes. This approach has been successful in achieving the strategic direction of the Society and it is not thought necessary to change it.

The Society generates income to meet its expenses in a number of ways, the most significant of which is by generating premium income from the new Plans its sells each year and by continuing to receive the premiums on Plans sold over the preceding years. Our actuary prices our products, and manages the returns on them, in a way that releases value from these premiums to cover all the operating expenses of the Society. This released value is known as "allowances" and if we did not generate sufficient new sales each year a situation would quickly develop whereby we would have to spend money from the surplus to meet operational expenses.

I am pleased to confirm that the Society sold 3911 new plans in 2015, which was very much in line with our target, and that allowances generated exceeded the amount required to cover operating expenses by 9%.

We have set targets for the next five years which seek to continue to deliver an operating surplus.

So far my report has touched on two of the most material risks the Society faces -market risk and new business risk. The other material risks the Society faces are identified as insurance risk, business continuity risk and reputational damage risk.These risks are discussed fully later in this Strategic Report.

In terms of generating and preserving value for our Members it is essential that the Society manage the material risks it faces successfully.

Key to generating future value is producing sufficient new business volumes to ensure operational costs are covered without having to draw down on the surplus funds or reduce returns to Plan Holders.

Of equal importance is preserving the value of our assets as these provide the returns to Plan Holders upon maturity or upon claim. 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.

The generation and preservation of value for our Members will only be achieved if there is sound leadership in the business and so the final area I wish to cover is how this is achieved, and how we satisfy ourselves that we have in place an effective Board. Linked to this is how we have prepared for the implementation, from 1st January 2016, of the Solvency II Directive, an activity that has placed great demands on our Board throughout 2015.

It is my responsibility to lead both the non-executive directors and the executive directors in a way that ensures the Members interests are always the first consideration when determining strategy and subsequently implementing it. The Solvency II Directive has led to the implementation by the UK Regulators of a new approach to the approval and control of those responsible for running financial service businesses. This, in our case, is known as the Senior Insurance Managers' Regime. The fundamental difference to what has gone before is that Senior Managers and other key function holders will be subject to personal regulatory or legal punishment, should they be found guilty of knowingly behaving irresponsibly in managing the business.

We fully prepared in 2015 for the implementation of this regime, from the 1st January 2016, and all of the Society's Board of Management now comply with a defined set of conduct standards and are individually personally accountable for delivering the responsibilities apportioned to them. I am pleased to report that all the responsibilities we are required to allocate has been achieved without a need to enlarge the Board.

The other major activities in preparation for Solvency II implementation have been the continued transition away from the existing Solvency 1 basis for calculating solvency to the newly defined parameters to be used for the Solvency II basis and the development of our Own Risk Solvency Assessment. Whilst the technical calculations are carried out by our appointed actuary, ownership of the whole process remains with the Board of Management. I am grateful to our actuary for guiding us through this complex change and to all my Board colleagues for the major part they have played in this transition and the contribution they have all made to the development of the ORSA. Due to the commitment shown by the whole management team we are confident of being able to submit successfully our first set of Solvency II figures and our first ORSA to the PRA on time in 2016.

Later in this Strategic Report we make a viability statement and in there we comment on the impact made by implementation of Solvency II.

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 Members an annual bonus for the thirteenth consecutive year.

We are here to be at the heart of Members issues and to act on your behalf when you have areas of concern and cannot reach an agreeable solution through other available channels to you. We aim to gain a thorough understanding of what matters the most to our Members and we promise to do this through regular Member communication via our website, Member Focus Groups and being available when you need another voice.

J Hindle Chairman

Chief Executive's Report and 2015 Business Review

I am pleased to report that despite a seriously challenging year in terms of achieving compliance with major regulatory change the Society was able to deliver continued business success in its day to day activities.

The ever increasing regulatory burden on a small business such as ours is an ongoing feature of our world which is unlikely to change. The burden of extra work and cost is not proportionate to the risk presented by a small mutual firm such as ours to the financial stability of the UK economy or the scope and scale of consumer detriment we could cause. Despite our small size and limited resources, we are expected to comply with the same regulations as giant financial corporations but without their substantial financial, people and technology resources.

However, despite the huge diversion in management time towards regulatory compliance we have had an excellent year in new business growth and the retention of existing Members. Almost 4000 new Plans were written, an increase of 9% over 2014. New annual premium equivalent was 10% higher than 2014 and enabled us to generate sufficient allowances to exceed operational costs comfortably with a total operational surplus 15% higher than budget. Our membership numbers increased to 83912 (2014: 83308).

To achieve continued success, we have to constantly adapt our products and distribution strategies to meet consumer and business partner needs and demands. In doing so we must also maintain an awareness of treating all Members fairly, and do that, even if it means we have to turn away some opportunities. Maintaining an ethical and good conduct approach is important to us and needs constant consideration as different types of distributors seek to compete against each other to win customers.

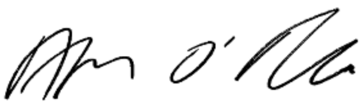
Examples of our success in distribution diversification include an increase of 6% in "with -profit" sales via intermediaries and an increase of 38% in "non -profit" Plans distributed directly to the consumer. The latter success was due primarily to a "refreshed" income protection plan launch and further development of the web site making it more customer focussed and with an easier consumer "journey" when applying for a Plan.

We are hopeful that the UK will always have a varied and successful financial services market place where consumers can find the products they need and buy them in the way they want to.
Over recent years there has been a trend away from buying through financial advisors or "bank assurance" staff to either not taking a product at all or buying from an internet aggregator site, often taking the purchasing decision on price. We believe this trend is regrettable and has led to a worsened ability for consumers to make provision to protect their future wealth and health.

There is currently a joint review underway between HM Treasury and The Financial Conduct Authority called the "The Financial Advice Market Review" and we fervently hope this leads to a freer market place for the distribution of the simpler financial products, in a way that is more understandable and attractive to the consumer, and less onerous in terms of regulatory cost to product providers and advisors.

Our ability to remain in business does hinge largely upon our ability to sell sufficient new business each and every year and this has been identified as the most significant risk faced by the Society.

Each of the material risks identified by us is briefly discussed in the Directors Report and Viability Statement in this document.



A M O'Dea Chief Executive Officer

Director's Report and Viability Statement

The Board of Management in the strategy work they do, and in production of the ORSA, assess on a forward looking basis the prospects for the Society. They do this on a five-year projection having considered the material risks the Society is known to face and, having done their best to identify them, risks which may emerge in the future. Stress tests are then applied to the projections which assume worse than expected events occur.

The following are the material risks the Board have identified as facing the Society -

New Business Risk

This is a high risk faced by the Society. It is the risk of not being able to sell enough new business to generate allowances which enable us to meet operational costs on an ongoing basis. Steady growth in new business volumes is essential to build sufficient capital strength to continue in business and deliver the expectations held by policyholders. We mitigate this risk by offering a varied range of products in both investment and protection markets using both With-Profit and Non-Profit plans. We also use a variety of routes to market, which when allied to a varied product range,means we are not over dependent on any one product or route to market and can better weather falls in demand when they occur.

Market Risk

This is a medium risk faced by the Society. Market Risk is the risk that arises from fluctuations in capital values of, or income from, invested assets, or in interest or exchange rates applicable to those assets. Market movements e.g. falling values, have an impact on solvency as it affects the capital resources of the Society. This also affects policyholders through the bonus levels that can be paid annually and the final maturity value of their policies.

To be better placed to manage and mitigate this risk we introduced a hypothecated approach to investing assets in late 2013, so that the type of investments made became a better match for the corresponding liabilities than had previously been the case. When this new approach was implemented the Society also changed from using largely passive investment management techniques, based upon Tracker Funds, to using active management through the appointment of a professional Investment Management firm.

There are further management actions, agreed by the Board with the Society's actuary, to monitor the market values of investments. There are defined "trigger points" at which management actions will be taken to defend solvency by reducing volatile investments, and replacing them with assets which may better maintain their capital value.

Insurance Risk

This is a medium risk faced by the Society. Insurance Life Risk is the risk from losses on life insurance business caused by mortality, lapses and expenses being worse than expected.

On a forward looking basis we are not unduly concerned by the threat of a sudden worsening in the level of mortality claims. The Society has a very small historic book of pure term insurance policies and there is re-insurance behind those policies. This type of business is no longer written. The other death benefits are on policies, such as tax exempt Friendly Society With–Profits savings plans and the Over 50's whole of life policies, where the sums insured per policyholder are relatively small.

Insurance Health Risk covers the potential losses from income protection insurance business. This covers morbidity, lapses and expenses being worse than expected. This risk needs to be carefully monitored and controlled as it is potentially more volatile than mortality risk. We have experienced a worse than expected claims level on a specific book of income protection business. This book of business is small in numbers of policy and is subject to strong on-going management. The Society ceased writing this book of business in 2014.

Business Continuity

This is a low risk faced by the Society. If the firm was to suffer a prolonged interruption to its ability to trade it could suffer a loss of new business and a loss of existing policyholders concerned about their funds. A Business Continuity and Disaster Recovery Plan is in place and is regularly tested. We moved premises in late 2015 without any loss of ability to trade and as such conducted a useful validation of the Business Continuity Plan.

There are two main ways a prolonged business interruption could occur and these are a loss of premises to operate from and a loss of Information technology systems and the data contained within them. We occupy rented premises and therefore loss of the premises would not be a financial loss to the firm. The business is situated within Greater Manchester where there is a considerable amount of unlet office space and finding new premises in a short time frame is entirely feasible.

The information technology systems are operated on a "cloud" basis supported by a well-established and major provider of out-sourced information technology solutions. Data and systems capability can be delivered from two independent centres.

Reputational Damage

This is a low risk faced by the Society. It is the risk that because of some form of "wrong - doing" within the business, resultant publicity causes a loss of confidence in the firm by existing and potential policyholders.

This risk is managed and mitigated within the firm by the operation of a Conduct Risk Framework, overseen by the Board of Management with its independent non -executive directors.

As a mutual organisation owned by its Members, we have an almost 200-year-old tradition of working in their interests. As such we are not driven by factors such as maximising shareholder benefit at the policyholder's expense, nor are our staff driven by a desire to earn large bonus payments. We do not have a history or ethos of poor conduct.

Another risk which could cause reputational damage is "Cyber" attack. We believe this to be a low risk but nevertheless we take a wide range of security measures to prevent our systems and data being accessed by third parties. A greater level of protection is achieved by using the services of a major data centre provider than maintaining the data on in house servers.

From the projections carried out in conjunction with the Actuarial Function Holder the Board is satisfied that the Society should remain viable on a forward-looking 5-year basis. The Board believes that 5 years is the longest forward looking projection it can make as beyond that any assumptions would increasingly be pure guesswork. The Society measures its future solvency by reference to a Capital Resources Ratio (CRR) which is defined as assets less liabilities, expressed as a percentage of the capital requirements as currently calculated by the regulatory Individual Capital Assessment (ICA).

The Board has decided that the solvency range of the Society will be contained within a range of 150% to 250% of capital required. When the CRR globally, or for individual risks, is on a path which would breach the lower of these tolerances then management actions will be taken to contain solvency within the range. Similarly, if the material risks are mitigated successfully, no new material risks emerge and the 5-year business plan targets are achieved the then CRR figure would increase steadily.

The Society has a ten-year history of increasing its business volumes and successfully managing its assets. The directors have no reason to believe this cannot be maintained and on this basis the Board is pleased to confirm that the Society is currently viable and is expected to remain so over the coming years and will be able to meet its liabilities as they fall due.

Corporate Governance Review

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. 2015 was an especially busy year due to large scale regulatory change and the preparations for the introduction of the European Solvency II Directive from 1st January 2016. Accordingly, there were extra Board meetings in 2015 with a total of seven held.

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

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 and NED	1/1	7/7	-	4/4	-	4/4	4/4
Geoff Ross - NED	1/1	5/7	5/5	-	4/4	-	-
Nemone Wynn-Evans - NED	1/1	7/7	-	2/2	4/4	4/4	4/4
Barry Bibby - NED	-	4/4	-	2/2	-	-	-
Ann-Marie O'Dea - CEO	1/1	7/7	-	-	-	-	-
Kim Harris - Executive Director	1/1	7/7	5/5	-	-	-	-
Justine Morrissey - Executive Director	-	4/4	-	-	-	-	-
Tim Robertson - Company Secretary	1/1	7/7	-	-	-	-	-

Financial Responsibilities of the Board Directors

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 other financial services legislation, both European and United Kingdom.

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 Directors must be able to demonstrate the measures undertaken to achieve this. In doing so, they have the following collective and personal responsibilities.

Collective Responsibilities of the Board Directors

All Directors share responsibility for:

- Maintaining an understanding of the views of the membership and acting in their best interests
- Setting the Society's mission and customer focussed values
- Setting the strategy of the Society and any subsidiary company
- Approving corporate plans to achieve the strategy
- Approving and monitoring budgets necessary to achieve the strategy
- Monitoring the Society's and any subsidiary companies' performance in relation to agreed annual plans, budgets and objectives and thereby assessing the performance of the Executive Directors
- Approving key decisions in respect of all significant counterparty relationships and all significant new business ventures
- Establishing, maintaining and reviewing the Society's system of internal financial, management and operational systems and controls (including risk management)
- Approving the Society's annual financial statements and presenting a balanced and understandable assessment of both the Society's current position and its forecast position in the Board's annual report
- 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 regulator
- Establishing and overseeing the framework of delegation to the Chief Executive and delivering to her supportive and entrepreneurial leadership
- To ratify and agree the decisions of the Board Committees
- To monitor composition and performance of the Board/Committees and to conduct succession planning on a continuous basis
- To agree appointments to the Board of people who are fit, proper and competent for the roles and to set appropriate remuneration levels for them.

Personal Responsibilities of Board Directors

Each Director accepts a personal responsibility to:

- Maintain an understanding of the views of the membership
- Support the mission and values of the Society
- Support the regulator's Principles
- Support all Society policies
- Work effectively with other Directors
- 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
- 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
- Maintain constructive relationships with Society staff
- Directors may be called on to contribute from their specific skills by liaison informally with any appropriate member of staff
- Undertake a formal evaluation process of the Board's performance.

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 overleaf.

Society Sub - Committees

Nominations Committee

The purpose of the committee is to ensure that nominations to the Board and other senior positions are appropriately managed and in the interest of Members and customers.

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

Composition of the Committee in 2015 was -

Joanne Hindle - (Chairman and non-executive director)

Nemone Wynn-Evans - (non-executive director)

Supported by -

Nasrin Hossain - (invited senior management attendee)

During the year the Committee met 4 times. There was full member attendance at all meetings. As a result of its work the Committee is able to confirm the following -

- The Chairman meets the definition of an Independent Director contained in the Combined Code, an annotated version for Mutual Insurers.
- 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 Board has maintained a sound balance of different skill sets amongst its non-executive directors. Succession Planning continues at all times and ensured an effective transition to a new Chief Executive at the start of 2015.
- All non-executive directors meet the definitions of independent directors.
- 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.
- The Society is successfully fulfilling its diversity policy and has comfortably exceeded its target of at least 25% female directors by 2015.
- A Board Effectiveness Appraisal process, based on peer group assessment, was carried out. 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. Following a recommendation from the Committee the Society will commence having an independent person facilitate a review of board effectiveness at least once every three years.
- 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 by planned CPD activities.
- Each Sub Committee assessed performance against their objectives and reported the results for assessment to the whole Board.
- In respect of the appointment of non-executive directors (and executive director positions which cannot be filled by internal promotion) the Society normally recruits on an open market basis. In 2015 Mr. B. Bibby was appointed as a non-executive director without the Society following its normal recruitment process. The reasons for this are given later in this Corporate Governance Review.
- The Society has operated without a Senior Independent Director in 2015 and again the reasons for this are explained later.

Remuneration Committee

The purpose of the committee is to take responsibility for ensuring that Remuneration matters are appropriately managed and in the interests of Members and customers.

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

Composition of the Committee in 2015 was -

Nemone Wynn-Evans - (Chairman and non-executive director)

Joanne Hindle - (non-executive director)

Supported by -

Nasrin Hossain - (invited senior management attendee)

During the year the Committee met 4 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 was satisfied that the remuneration package for executive directors is set at an appropriate level to attract and motivate directors of the right calibre without paying more than is necessary. Independent sources are used to benchmark the executive's level of pay.
- No director is responsible for setting their own remuneration.
- 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 percentage level of executive director's pay which is linked to financial and sales performance targets has been reduced as the committee recommended that this better reflects financial services regulatory guidance on remuneration and incentive packages.
- All directors have notice periods that do not exceed one year.

Audit Committee

The purpose of the committee is 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 Audit Committee provides a forum for independent oversight of the Audit matters for the Society and any of its subsidiary companies to ensure the interests of Members and customers are always considered.

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

Composition of the Committee in 2015 was -

Nemone Wynn-Evans - (Chairman until 30th April; non-executive director)

Barry Bibby - (Chairman from 1st May; non-executive director)

Joanne Hindle - (non-executive director)

Martin Howard - (non-executive director; resigned 10th June 2015)

Supported by -

Ann Marie O'Dea - (invited executive director attendee)

Justine Morrissey - (invited executive director attendee)

Tim Robertson - (invited senior management attendee)

Stephen Johnson - (invited senior management attendee)

In addition to the above, representatives from the External Auditors, Moore Stephens, and from the Internal Auditors, Gateway Assure, attended certain meetings.

During the year the Committee met 4 times. 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 2015 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 2015 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.
- The Committee was responsible for reviewing and managing the relationship with the Internal Auditors. In 2015 Gateway Assure began their term as internal auditors and their performance in 2015 was deemed satisfactory.
- All of the reports from the internal auditors in 2015 were satisfactory and no material shortcomings were identified.
- The Committee received the annual report from the Society's Money Laundering Reporting Officer and confirm there were no material concerns raised.
- The Committee also confirms that there were no whistle blowing incidents in the Society.

Risk Committee

The purpose of the committee is to assist and advise the Board in exercising its responsibilities for all aspects of the current and future risk strategy including the determination of risk appetite and tolerance, risk measurement, management and mitigation procedures throughout the Society.

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

Composition of the Committee in 2015 was -

Nemone Wynn-Evans - (Chairman and non-executive director)

Geoffrey Ross - (non-executive director)

Martin Howard - (non-executive director; resigned 10th June 2015)

Graeme Charters - (external expert advisor)

Supported by -

Ann Marie O'Dea - (invited executive director attendee)

Justine Morrissey - (invited executive director attendee)

Stephen Johnson - (invited senior management attendee)

Wendy Baker-Rees - (invited senior management attendee)

Sam Chivers - (invited senior management attendee)

Tim Robertson - (invited senior management attendee)

In addition to the above Christopher Critchlow, The Society's Actuarial Function Holder, attended one meeting.

During the year the Committee met 4 times. As a result of its work the Committee is able to confirm the following -

- During the year the Committee played a leading role in preparing the Society for the implementation of the European Union "Solvency II Directive". Major activity in this respect included governance of the policies and processes to deliver an update Risk Appetite Statement and subsequently the 2015 version of the Society's Own Risk and Solvency Assessment".

- The Society's processes to identify, assess, manage 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 Society'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.

With Profits Committee

The purpose of the committee is 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.

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

Composition of the Committee in 2015 was -

Geoffrey Ross - (Chairman and non-executive director)

Kim Harris - (Executive director)

Stephen Moncrief - (external expert advisor)

Supported by -

Justine Morrissey - (invited executive director attendee)

Tim Robertson - (invited senior management attendee)

Christopher Critchlow - (Actuarial Function Holder and With Profits Actuary)

During the year the Committee met 5 times. As a result of its work the Committee is able to confirm the following -

- There has been independent challenge to the With Profit Actuary's recommendations to ensure they have worked in the with- profit policyholders interests.
- The Committee is satisfied that the Society has operated in accordance with its Principles and Practices of Financial Management and has made recommendations to the Board which are appropriate.
- 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 properly 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.

Report on compliance with the UK Corporate Governance Code - An Annotated Version for Mutual Insurers

The UK Corporate Governance Code (The Code) requires firms to comply with 26 Main Principles, or if it does not do so, to explain why not. The Society, because of its membership of the Association of Financial Mutuals, seeks, whenever it is in the member's interests, to comply fully with the Code.

In 2015 the Society made two exceptions to complying fully with The Code which are explained below -

1) For many years it has been the Society's standard practice to recruit its independent non - executive directors using an open market selection approach. For the first time since the Society ceased to have a lodge structure, in 2015 a non -executive director was appointed without an open market search process. The Society had been using the services of Mr. B Bibby for the preceding 12 months as an external consultant working to improve the Society's finance function. The Board was satisfied that he would be a competent individual to join the Board and to chair the Audit Committee. It was decided that it would not be in the member's best interests to spend up to £20,000 on external recruitment activities when a competent known individual was available and willing to fulfil the role. The Board believes examples such as this exception will be rare and fully expects to recruit from the open market as a norm.

2) For many years the Society has appointed a Senior Independent Director. However, it has become increasingly obvious that the purposes for which such an appointment is made have not materialised in the normal course of business. Repeated attempts by previous Senior Independent Directors to generate increased levels of personal participation by our Members in the affairs of the Society met with very limited success and progressively failed. We now live in a world where our Members would rather communicate with us by less personal means and not by such time consuming means such as member's forums or other discussion groups. Therefore, the costs of having a Senior Independent Director seeking member input have been re-allocated to other techniques to generate customer dialogue and to provide means for them to talk to us should they wish so to do.

Another function of the Senior Independent Director is to assess the Chairman and to provide a private conduit for directors to raise issue of concern. We are satisfied that both these functions are successfully dealt with in The Society by other means with-out necessitating the formal appointment of a Senior Independent Director. Such activities are conducted via the Deputy Chairman but at no additional cost to the member's funds. The Society board has only four independent non executive directors and should this number ever increase substantially then consideration would be given to formally commencing again the role of Senior Independent Director.

Report of the Independent Auditor

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

We have audited the consolidated financial statements of The Shepherds Friendly Society Limited for the year ended 31 December 2015 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Balance sheets and the related notes 1 to 17. 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), including Financial Reporting Standard 102 and 103 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' , having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2015, and the effect of the movement in those provisions during the year on the fund for future appropriations, the balance on the general business technical account and on excess of income over expenditure before tax are disclosed in the notes to these financial statements.

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 the Board of Management and auditor

As explained more fully in the Board of Management's Responsibilities Statement set out on page 11, the Board of Management is responsible for preparing consolidated financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated 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 and specifically the operation of the system over premium income and claims paid to Members;
- the valuation and ownership of the Society's investments at the year end and the recording of transactions throughout the year;
- the Society's compliance with applicable regulations;
- the recoverability of balances owed to the Society by its subsidiary;
- 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 consolidated financial statements. For the purpose of determining whether the consolidated 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 consolidated financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the consolidated financial statements. We determined materiality for the Society to be an aggregated figure of £190,000 for items impacting the Income and Expenditure account, which is approximately 2% of income. We determined materiality of £555,000 for items which require reclassification on the balance sheet, which is approximately 0.75% of gross assets.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1,000, as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated 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 Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated 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 formed our response to the risks identified above was as follows:

- In order to address risk around the operation of the Society's Member's system during the year we have tested the operation of the controls over membership records, premium income 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 2015 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 2015 we have tested a sample of transactions to independent documentation.
- In order to address the risk over the Society's compliance with it regulatory environment we updated our understanding of the regulatory requirements and reviewed the Society'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.
- In order to address the risk relating to management override of controls we have reviewed all significant or unusual entries to ensure they are appropriate and reasonable. We have also reviewed key estimates and judgements for bias.

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 the Society's affairs as at 31 December 2015 and of the income and expenditure of the Group and Society for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Board of Management 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 consolidated financial statements for the financial year.

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 ten 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Board of Management's statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Friendly Societies Act 1992, we are required 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 received all the information and explanations and access to documents that we require for our audit.

M P Burnett
Senior Statutory Auditor
For and on behalf of Moore Stephens
Chartered Accountants & Statutory Auditor
31st March 2015

Society Statement Of Comprehensive Income for the year ended 31 December 2015

INCOME	Notes	2015 £	2015 £	2014 £	2014 £
Technical account - Long term business					
Earned premiums					
Gross premiums written	5	8,590,558		7,254,266	
Outward reinsurance premiums		(5,539)		(7,319)	
Net premiums			8,585,019		7,246,948
Investment income					
Land and buildings		200,073		160,192	
Other investments		1,383,551		1,630,048	
Gains/Losses on the realisation of investments		262,141		316,554	
			1,845,765		2,106,794
Unrealised gains/losses on investments			564,706		1,910,989
Total technical income			**10,995,490**		**11,264,731**

EXPENDITURE	Notes	2015 £	2015 £	2014 £	2014 £
Claims incurred					
Claims paid - gross amount		10,641,292		8,294,815	
Change in the provision for claims		54,489		9,343	
			10,695,781		8,304,157
Changes in other technical provisions					
Long term business provision transfer	13		(5,304,253)		(1,638,875)
Other expenditure **Net operating expenses**					
Other operating expenses	6	4,899,297		4,753,099	
Investment expenses		22,106		107,523	
			4,921,403		4,860,621
Taxation	10		-		-
Actuarial (gain)/loss on pension scheme	17		(411,000)		277,000
Transfer: Fund for Future Appropriations			1,093,558		(538,172)
Total technical expenditure			**10,995,490**		**11,264,731**
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 2015 or 2014 other than those shown in the accounts.

Group Statement of Comprehensive Income for year ended 31 December 2015

INCOME	Notes	2015 £	2015 £	2014 £	2014 £
Technical account - long term business					
Earned premiums					
Gross premiums written	5	8,590,558		7,254,266	
Outward reinsurance premiums		(5,539)		(7,319)	
Net Premiums			8,585,019		7,246,948
Investment income					
Land and buildings		200,073		160,192	
Other investments		1,363,547		1,598,243	
Gains/losses on the realisation of investments		262,141		316,554	
			1,825,761		2,074,989
Unrealised gains/losses on investments			564,706		1,910,989
Other technical income	1		1,377,607		1,123,281
Total technical income			**12,353,093**		**12,356,207**

EXPENDITURE	Notes	2015 £	2015 £	2014 £	2014 £
Claims incurred					
Claims paid - gross amount		10,641,292		8,294,815	
Change in the provision for claims		54,489		9,343	
			10,695,781		8,304,157
Changes in other technical provisions					
Long term business provision transfer	13		(5,304,253)		(1,638,875)
Other expenditure / Net operating costs					
Other operating expenses	6	4,101,386		4,040,326	
Investment expenses		22,104		107,523	
			4,123,490		4,147,849
Other technical charges	1		2,078,569		1,751,945
Taxation	10		0		-
Actuarial (gain)/loss on pension scheme	17		(411,000)		277,000
Transfer: Fund for Future Appropriations	13		1,170,506		(485,869)
Total technical expenditure			**12,353,093**		**12,356,207**
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 2015 or 2014 other than those shown in the accounts.

Society Statement of Financial Position as at 31 December 2015

ASSETS	Notes	2015 £	2015 £	2014 £	2014 £
Investments					
Land and buildings	11	1,510,000		2,660,000	
Other financial investments	11	71,602,653		73,928,252	
			73,112,654		76,588,252
Debtors					
Debtors arising out of direct insurance operations with members		66,969		63,115	
Other debtors		0		18,287	
			66,970		81,402
Other assets					
Tangible assets	14	308,778		210,873	
intangible assets	14	82,047		95,623	
Cash at bank and in hand		(156,784)		1,316,395	
			234,041		1,622,892
Prepayments and accrued income					
Accrued interest and rent		0		35,165	
Deferred acquisition expenses	1	759,489		600,903	
Other prepayments and accrued income		403,405		472,094	
Total prepayments and accrued income			1,162,894		1,108,161
Total assets excluding pensions asset			74,576,559		79,400,707
Pension scheme surplus/liability	17		26,000		(449,000)
Total Assets			**74,602,559**		**78,951,707**

LIABILITIES	Notes	2015 £	2015 £	2014 £	2014 £
Fund for future appropriations	13	10,873,686		9,780,128	
			10,873,686		9,780,128
Technical provisions					
Long term business provision	13	62,672,025		67,976,278	
Claims outstanding		219,546		165,057	
			62,891,571		68,141,335
Provisions for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		13,034		137,221	
Other creditors, including taxation & social security		549,412		350,156	
			562,446		487,377
Accruals and deferred income			274,856		542,867
Total Liabilities excluding pension liability			**74,602,559**		**78,951,707**

The attached notes form part of these accounts

Approved by the Board on 23rd March 2016

J Hindle Chairman

A M O'Dea Chief Executive Officer

Group Statement of Financial Position as at 31 December 2015

ASSETS	Notes	2015 £	2015 £	2014 £	2014 £
Investments					
Land and buildings	11	1,510,000		2,660,000	
Other financial investments	11	71,102,653		73,428,252	
			72,612,653		76,088,252
Debtors					
Debtors arising out of direct insurance operations with members		66,969		63,115	
Other debtors	12	11,347		164,570	
			78,316		227,685
Other assets					
Tangible assets	14	317,534		233,222	
Intangible assets	14	217,047		260,623	
Cash at bank and in hand		(84,628)		1,376,355	
			449,953		1,870,200
Prepayments and accrued income					
Accrued interest and rent		0		35,165	
Deferred acquisition expenses	1	759,489		600,903	
Other prepayments and accrued income		419,503		484,346	
Total prepayments and accrued income			1,178,992		1,120,414
Total assets excluding pensions asset			74,319,914		79,306,551
Pension scheme surplus/liability	17		26,000		(449,000)
Total Assets			**74,345,914**		**78,857,551**

LIABILITIES	Notes	2015 £	2015 £	2014 £	2014 £
Fund for future appropriations	13	10,777,397		9,606,891	
			10,777,397		9,606,891
Technical provisions					
Long term business provision	13	62,672,025		67,976,278	
Claims outstanding		219,546		165,057	
			62,891,571		68,141,335
Provisions for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		13,034		137,221	
Other creditors, including taxation and social security		389,058		429,237	
			402,092		566,458
Accruals and deferred income			274,856		542,867
Total Liabilities excluding pension liability			**74,345,914**		**78,857,551**

The attached notes form part of these accounts

Approved by the Board on 23rd March 2016

J Hindle Chairman

A M O'Dea Director

Notes to the Financial Statements For the year ended 31 December 2015

1 Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared accordance with Financial Reporting Standard 102 and Financial Reporting Standard 103 as issued by the Financial Reporting Council and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations').

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

The transistion to Financial Reporting Standard 102 and Financial Reporting Standard 103 has not resulted in any changes to the Society's accounting policies compared to those used when applying previous UK GAAP.

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

After making enquiries, the directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

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.

Accounting for Net Earned Premiums

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

Accounting for Income

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

Accounting for Claims and Benefits

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

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

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

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

Accounting for Long Term Insurance Liabilities

The long-term business provision is determined by the Board on the advice of the Actuarial Function Holder as part of the annual actuarial valuation of the Society's long-term business. The provision is initially determined in accordance with the requirements of the Prudential Sourcebook for Insurers.

In accordance with normal insurance practice, certain reserves required for statutory valuation returns are not required to be included in these accounts that are designed to present a true and fair view. This adjusted method is referred to as the modified statutory solvency basis. This makes sufficient provision for future expenses of fulfilling the long-term contracts and includes a provision for existing reversionary bonuses and current reversionary bonuses declared as a result of the valuation. Future reversionary bonuses are implicitly provided for by use of valuation rates of interest below those expected. No provision is made for terminal bonuses, which can be varied at any time depending on investment conditions. These liabilities are calculated using historic Society experience and include reserves for claims which have occurred but not reported, a reserve for unexpired risks and a reserve for claims already in payment.

Tangible and Intangible Fixed Assets
Tangible and Intangible assets are capitalised and depreciated/amortised by equal annual instalments over their estimated useful life. The principal rates used 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 to ten years
- Fixture and Fittings associated with rental leases are amortised over the length of the lease.

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

An external independent valuer, having appropriate recognised professional qualifications and current experience of the location and type of property being valued, values the Society's investment property every 3-5 years. Fair values are based on market values. Market values are the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing.

Where current prices cannot be established by reference to an active market, valuations are prepared by considering the aggregate of the estimated net cash flows to be received from renting the property.

A yield that recognises the specific risks inherent in the net cash flows is then applied to the net annual rental cash flows to determine the value.

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

Accounting for Leases
Rentals payable on operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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 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 Zillmerisation 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 cash-flows 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.

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

2 Critical Accounting Judgements and Estimates

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

Fair Value of Financial Assets

Market observable inputs are used wherever possible. In the absence of an active market, estimation of fair values is achieved using valuation techniques such as recent arm's length transaction, discounted cash flow analysis and option pricing models. For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. This valuation will also take into account the marketability of the assets being valued.

Long Term Business Provision

The valuation of participating contract liabilities is based upon assumptions reflecting the best estimate at the time. The valuation of non-participating insurance contracts is based upon prudent assumptions; a separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables, adjusted where appropriate to reflect the Society's own experience. In particular, for impaired annuities the mortality assumptions are based on standard annuitant mortality tables but with convergence factors to allow for the excess mortality to converge to normal mortality at advanced ages. The assumptions used for investment returns, expenses, lapse and surrender rates are based on current market yields, product characteristics, and relevant claims experience.

The assumptions used for discount rates are based on current market risk rates, adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

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

3 Capital Management

This section deals with the capital and risk management approach of the Society. The Society seeks to create value for its members by investing in the development of the business whilst maintaining an appropriate level of capital available.

The risk appetite for each type of principal risk is set based on the amount necessary to meet the PRA's capital requirements.

Policies and Objectives

The Society's key management objectives are:

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

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

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

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

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

Capital Statement

The following summarises the capital resources and the requirements of The Shepherds Friendly Society Limited as determined for UK regulatory purposes. The Society does not write with-profits to the scale required to calculate a realistic balance sheet. Therefore the capital statement below covers all their life assurance business. There are no specific constraints on the capital of the Society.

As the Society has no shareholders, all capital belongs to its members.

	2015 £000s	2014 £000s
Fund for Future Appropriations	10,800	9,780
Regulatory Solvency Adjustments	(1,346)	(703)
Total available capital resources	**9,454**	**9,077**

Measurement and Monitoring of Capital

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

Long Term Insurance Liability Valuation Assumptions

The following sets out the assumptions underlying the valuation of the Society's long term insurance liabilities. The section also details the analysis of change in the Society's capital resources over the year.

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

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

Business Type	Valuation Method
Life Business	
Regular premium life	Net premium with a Zilmer adjustment of 3% of the sum assured
Unitised With-Profits pension	Reserves equal to the value of the units
With-profits Bond (series I and II)	Reserves equal to the amount of the benefit payable on death excluding any final bonus entitlement
Individual Saving Accounts (ISAs), including Junior ISAs	Reserves equal to the amount of the benefit payable on death excluding any final benefit entitlement
Child Trust Fund (CTF)	Reserves equal to the bid unit value of the units held against CTF accounts
Income Protection Business	
Adult Holloway, Young Holloway, University Savings, SIPP and other IP contracts	Gross premium with members' accounts (where relevant) valued as discounted face value and sickness benefits valued using an inception/recovery average weeks claim approach. Premier reserves are calculated using individual case estimates.

Discount Rate of Interest

Discount rates are set having regard to the return available on the Society's fixed interest portfolio of assets excluding an allowance for credit risk on those assets. The following table summarises the discount rates of interest used.

Life	2015	2014
With-profits tax exempt	2.50%	2.50%
With-profits taxable	2.00%	2.00%
Non-profit tax exempt	2.00%	1.75%
Non-profit taxable	1.60%	1.40%
Income Protection	**2015**	**2014**
Holloway	2.25%	2.25%
Non-profit income protection	1.75%	1.50%

Expenses

The Society's expenses were analysed between acquisition and maintenance expenses and allow a prudent allowance for future years as a percentage of future premiums.

Mortality

Mortality rates are set by reference to standard actuarial tables by class of business. All mortality is assumed to follow 100% A6770 except Over 50's business where rates are assumed to be 225% of AXC00. Theses are unchanged from 2014.

Morbidity

The following table sets out the sickness assumptions for each class of income protection business at the end of 2015 and those used at the end of 2014. Rates are set by reference to 100% inceptions and recoveries of CMIR12 tables.

	2015	2014
Adult Holloway	50%	75%
Young Holloway	25%	25%
SIPP Holloway	75%	75%
Non-profit Income Protection	50%	75%

Persistency

The following table sets out the annual rates of lapse assumed for each class of business at the end of 2015 and those used at the end of 2014.

Life	2015	2014
All business except Over 50's	Nil	Nil
Over 50's	5%	5%
Income Protection	**2015**	**2014**
Holloway	Nil	Nil
Non-profit income protection	10%	10%

Options and Guarantees

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

Analysis of Change

There has been an increase in the available capital resources from 31 December 2014 to 31 December 2015. This is predominantly because of lower investment returns than allowed for within the valuation assumptions. An analysis of the change is set out below:

	Change in available capital £000s	Available capital £000s
Capital resources 31 December 2014		**9,077**
Methodology and assumption changes	1,289	
Investment gains in excess of discount rate	1,469	
Cost of annual bonuses	(683)	
New business strain	(2,040)	
Trading surplus	342	
Capital resources 31 December 2015		**9,454**

4 Risk Management and Control

This note provides information on the main risks to which the Society is exposed and how the Society manages these risks.

Underlying Approach to Risk Management
The following key principles outline the Society's approach to risk management and internal control:

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

Overview of Risk Identification, Assessment, Management & Mitigation Process
The Society operates a technology based risk register which enables the Board, via its Risk Committee, to manage the risks faced by the business in a highly proactive manner. The system is used by staff at all levels in the organisation to ensure an enterprise wide approach to risk identification, assessment, management and mitigation is in operation. Risks are continously assessed as they change and develop.

The following are the material risks identified by the Society:-

New Business Risks
The Society must write a sufficient volume of new business each year to maintain a flow of emerging surplus to meet its operating expenses. Therefore, it must complete in the open market to win business and in so doing faces a range of risks including the insurance risks described below plus others such as over paying to generate sales and the risk associated with miss-sold or misrepresented products. Accepting these risks is a result of being open to new business. Low new business levels may result in an inability to cover the costs of writing that new business. The Society has continued to monitor new business levels. A stagnation in demand and increasing competition raise the risk of writing too little business. The Society's strategy is to maintain its diversified product range, selling to existing members and developing new routes to market to mitigate this risk.

Insurance Risk

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

Issuing new policies is the business of the Society and therefore it will always have to accept insurance risks if it is to remain open to new business. The inherent major risks within insurance books of business relate to policyholders having a different (worse) risk profile than was thought when they were sold a policy. When such risks appear the Society manages them in a manner of ways, such as in depth claims management, negotiated early settlements, product withdrawal and revised pricing for replacement products.

The product range of the Society generates surplus to be distributed to our members, and an additional risk which is given careful management is the lapse rate. If this is higher than planned, then a lower level of surplus will emerge from a book of business. The Society strives to deliver great service to its policyholders, to encourage high levels of policy retention.

Note 13 sets out the Long Term Business Provisions and the changes over the year.

Financial risks (market risk, credit risk, liquidity risk)
Financial risks vary in nature:

- Market risk is the risk of losses due to changes in the investment assets or the income from those assets.
- Credit risk is the risk of loss due to default by debtors and the Society's counterparties in meeting their financial obligations.
- Liquidity risk is the risk that the Society is unable to meet its own commitments to pay its liabilities when they become due.

The Board oversees investment activity, monitors investment managers and ensures that the investment policy and asset allocations are adhered to. The Society manages its assets for the benefit of its members. The asset allocation policy, counterparty limits and other controls balance the risks against the rewards. Investment managers are used to manage much of the Society's investment portfolio with the Actuarial Function Holder being asked to review the Investment Policy. Investment policy statements are used to assist in the portfolio management with investment managers.

Sensitivity of the Society's results to changes in key assumptions

Variable	Change in variable %	Change in available capital £000s
Change in mortality	+10%	-116
Change in morbidity (%CMIR12)	+10%	-416
Expenses	+10%	-790
Change in fixed interest yields	+0.5%	368
Change in fixed interest yields	-0.5%	-501
Fall in equity values	-10%	-2155
Fall in property values	-10%	-506

Subsidiary Risk
The Society has a subsidiary - Financial Advice Network which acts as a distributor of some of the Society's insurance contracts. At the end of 2015 the Network is trading profitably. the Board is managing this business with a view to continued growth but it is exposed to market and regulatory pressures and risks.

5 Earned 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	2015 £	2015 £	2014 £	2014 £
Non Profit Policies				
Periodic premiums	1,938,282		1,665,335	
Reinsurance	(5,539)		(7,319)	
		1,932,743		1,658,016
With Profit Policies				
Periodic premiums	4,451,310		3,791,681	
Reinsurance	0		0	
		4,451,310		3,791,681
Single premium	2,200,965		1,797,250	
		2,200,965		1,797,250
		8,585,018		**7,246,948**

Annualised new business written: Society and Group	2015 £	2014 £
Single Premium	220,097	179,725
Regular Premium	1,837,763	1,663,166
	2,057,860	**1,842,891**

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.

6 Society and Group Net Operating Expenses

	Society 2015 £	Group 2015 £	Society 2014 £	Group 2014 £
Acquisition costs	3,336,390	3,349,392	2,873,120	2,770,308
Changes in deferred acquisition cost	(158,586)	(158,586)	107,753	107,753
Administration expenses	1,721,494	910,580	1,772,225	1,162,266
	4,899,297	**4,101,386**	**4,753,099**	**4,040,326**

Also included in the operating expenses are:

	Society 2015 £	Group 2015 £	Society 2014 £	Group 2014 £
Auditor's renumeration and expenses for audit services:	34,661	38,616	27,200	30,200
Non-audit services	0	0	0	0
	34,661	**38,616**	**27,200**	**30,200**

Notes to the Accounts

7 Staff Costs

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

	2015 £	2014 £
Wages and salaries	1,780,981	1,817,168
Social security costs	217,265	187,746
Pension costs	242,325	186,779
	2,240,571	**2,191,693**

	2015	2014
Average number of employees:		
Sales	4	5
Administration	30	35
Board	7	7
	41	**47**

8 Board Remuneration

	Salary £	Bonus £	Other Benefits £	Total 2015 £	Total 2014 £
A M O'Dea	142,567	42,840	7,733	193,140	124,020
K Harris	96,900	29,070	8,000	133,970	99,920
J Morrissey	60,353	13,999	3,000	77,352	-
J Hindle	35,200		1,225	36,425	32,486
G Ross	22,400		2,030	24,430	23,626
N Wynn-Evans	24,000		1,789	25,789	23,685
B Bibby	14,933		1,285	16,219	-
M Howard	7,962		1,937	9,899	24,057
G Spencer	-			-	152,855
J Meadows	-			-	25,670
Total	**404,314**	**85,909**	**26,999**	**517,223**	**506,319**

Other benefits include contributions to pension money purchase schemes of £26,999. 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'.

9 Related Party Transactions

Advantage has been taken of the exemption under FRS 102 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.

Geoff Ross Consulting Limited was paid £2,790 (2014: £0) for services provided during the year. The transactions made were under normal commercial terms. Mr G Ross is a Director of the Company.

10 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.

11 Society Investments (Group)

Land and buildings*

	Cost 2015 £	Market Valuation 2015 £	Cost 2014 £	Market Valuation 2014 £
Freehold properties partly occupied by the Society**	0	0	1,319,540	1,150,000
Other investment properties	1,597,425	1,510,000	1,597,425	1,510,000
Long leasehold	0	0	0	0
	1,597,425	**1,510,000**	**2,916,965**	**2,660,000**

* 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 2015. In 2013 valuations were undertaken by Matthews and Goodman, Chartered Surveyors. ** The Society sold it's Head Office (Shepherds House) in 2015, and moved into rented office space.

Other financial investments

	Cost 2015 £	Market Valuation 2015 £	Cost 2014 £	Market Valuation 2014 £
UK and overseas listed shares	44,232,007	49,585,829	42,553,056	47,308,099
UK and overseas listed fixed interest securities	17,760,080	17,948,528	21,743,696	22,741,031
UK and overseas listed Property Investment Fund	2,991,624	3,568,296	3,060,238	3,379,122
	64,983,711	**71,102,653**	**67,356,990**	**73,428,252**

Investment in subsidiary.

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

	Shares in subsidiary £	Loans to subsidiary £
As 31 December 2015	500,000	0

12 Other Debtors (Group)

	2015 £	2014 £
Other debtors	11,347	164,570
	11,347	**164,570**

13 Movements in Provisions and Appropriations

Fund for Future Appropriations (Group)

	2015 £	2015 £	2014 £	204 £
Balance at 1 January		9,606,891		10,134,747
Transfer from/to income and expenditure account	1,176,912		(485,869)	
Transfer from/to revaluation reserve	(6,406)		(41,987)	
		1,170,506		(527,856)
Balance at 31 December (Group)		**10,777,397**		**9,606,891**
Loss realised in subsidiary		96,289		173,237
Balance at 31 December (Society)		**10,873,686**		**9,780,128**
Less pension asset (FRS 17)		(26,000)		449,000
Balance at 31 December less pension asset		**10,847,686**		**10,229,128**

Long Term Business Provision

	2015 £	2014 £
Balance at 1 January	67,976,278	69,615,153
Transfer from income and expenditure account	(5,304,253)	(1,638,875)
Balance 31 December	**62,672,025**	**67,976,278**

The technical provisions were calculated by the Society's Actuarial Function Holder, using assumptions detailed in Note 3 Capital Management.

14 Tangible and Intangible Assets

Tangible assests cost	Motor Vehicles £	Equipment and Furniture £	Total £	Group £
At 1 January 2015	78,651	660,055	738,706	777,797
Additions		270,875	270,875	271,353
Disposals	(78,651)	(180,102)	(258,754)	(258,754)
At 31 December 2015	0	750,827	750,827	790,397
Depreciation				
At 1 January 2015	39,149	488,684	527,833	544,575
Provided in year	1,672	133,468	135,140	149,212
Disposals	(40,821)	(180,102)	(220,924)	(220,924)
At 31 December 2015	0	442,049	442,049	472,863
Net book value				
31 December 2015	**0**	**308,778**	**308,778**	**317,534**
31 December 2014	**39,502**	**171,371**	**210,873**	**233,223**

Intangible assests cost	Equipment and Furniture £	Total £	Group £
At 1 January 2015	122,731	122,731	362,731
Additions	0	0	0
Disposals	0	0	0
At 31 December 2015	122,731	122,731	362,731
Depreciation			
At 1 January 2015	27,107	27,107	102,107
Provided in year	13,576	13,576	43,576
Disposals	0	0	0
At 31 December 2015	40,683	40,683	145,683
Net book value			
31 December 2015	**82,047**	**82,047**	**217,047**
31 December 2014	**95,623**	**95,623**	**260,623**

15 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 2015.

2 Neither Mr Critchlow, his wife or children had any financial interest in any transaction with the Society at any time during 2015, 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 £220,508 inclusive of VAT (2014: £223,783). No other benefits, emoluments, pensions or compensation were paid.

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

16 Operating Rent & Lease Commitments

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

	2015 £	2014 £
Annual commitments under rent agreements and operating leases which expire:		
Amounts falling due < 1 year	68,892	-
Amounts falling due 2 - 5 years	252,880	38,556
Amounts falling due 5 years +	248,059	-
	569,831	**38,556**

17 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 2015. The results have been updated to 31 December 2015 by a qualified independent actuary.

The assumptions used were as follows:

Final Assumptions Description	Year ending 31 December 2015	Year ending 31 December 2014
Discount Rate	3.90% pa	3.50% pa
Retail price inflation	3.10% pa	3.20% pa
Consumer price inflation	2.10% pa	2.20% pa
Salary increases	3.00% pa	3.00% pa
Rate of increases of pensions in payment		
-CPI max 3%	1.90% pa	2.00% pa
-RPI 5%	3.00% pa	3.10% pa
-RPI 2.5%	2.30% pa	2.30% pa
Rate of increase for deferred pensioners	2.10% pa	2.20% pa

Demographic Assumptions Description	Year ending 31 December 2015	Year ending 31 December 2014
Mortality (Pre retirement)	SP2PA CMI_2015_M/F [1.00%] (yob)	S2PA CMI_2014_M/F [1.00%] (yob)
Mortality (Post retirement)	SP2PA CMI_2015_M/F [1.00%] (yob)	SP2PA CMI_2014_M/F [1.00%] (yob)

Life Expectations	Year ending 31 December 2015		Year ending 31 December 2014	
	Male	Female	Male	Female
Life expectancy for an individual aged 65 in 2015	21.9 years	23.8 years	21.1 years	24.1 years
Life expectancy at age 65 for an individual aged 45 in 2015	23.1 years	25.3 years	23.4 years	25.6 years

17 Assets

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

Asset Class	Year ending 31/12/2015		Year ending 31/12/2014	
	Market Value £'000	% of total Scheme assets	Market Value £'000	% of total Scheme assets
Equities	0	0%	0	0%
Bonds	1,562	39%	1,797	44%
Gilts	0	0%	0	0%
Property	0	0%	0	0%
Cash	0	1%	29	1%
Diversified growth funds	2,327	58%	2,295	56%
Annuities	0	0%	0	0%
Total	3,987		4,121	

Reconciliation to the Balance Sheet Description	Year ending 31 December 2015 £'000	Year ending 31 December 2014 £'000
Market Value of assets	3,987	4,121
Present Value of liabilities	3,961	4,570
Surplus/(Deficit) in the scheme	26	(449)
Irrecoverable Surplus	0	0
Pension asset/(liability) recognised in the balance sheet before allowance for deferred tax	**26**	**(449)**

Reconciliation of Scheme Assets and Defined Benefit Obligation Description	Assets £'000	DBO £'000	Total £'000
As at 31/12/14	4,121	(4,570)	(449)
Benefits paid	(256)	256	0
Employer contributions	102		102
Member contributions	6	(6)	0
Current service cost		(24)	(24)
Administration expenses	0		0
Past Service cost		0	0
Settlements	0	0	0
Business combination/ bulk transfers	0	0	0
Interest income/(cost)	142	(156)	(14)
Remeasurement gains/(losses)			
-Actuarial gains/(losses)		539	539
-Return on plan assets excluding interest income	(128)		(128)
As at 31st December 2015	**3,987**	**(3,961)**	**26**

Analysis of Amounts Charged (Credited) to Profit or Loss	Year ending 31 December 2015 £'000	Year ending 31 December 2014 £'000
Service Cost:		
Current service cost:	24	18
Administration expenses	0	0
Past service cost	0	0
(Gain)/Loss on business combinations	0	0
(Gain)/Loss on settlements	0	0
Total Service Cost	24	18
Net Interest	14	11
Amount Charged/(Credited) to Profit & Loss	38	29
Amounts Recognised In Other Comprehensive Income	**Year ending 31 December 2015 £'000**	**Year ending 31 December 2014 £'000**
Remeasurement of the Net Defined Benefit Liability (asset)		
Actuarial gains/(losses) on liabilities	539	(457)
Return on assets excluding amount included in net interest	(128)	233
Limit on recognition of assets excluding amounts included in net interest	0	0
Amount recognised in Other Comprehensive Income	**411**	**(224)**

Future Funding Obligation

The last actuarial valuation of the Scheme was performed by the previous Actuary for the trustees as at 5 April 2012. The Society agreed to pay annual contributions of 28.6% of pensionable salaries and £75,000 pa until 5 April 2019. The Society expects to pay £99,000 to the Scheme during the accounting year beginning 1 January 2016.

Transition from FRS 17 to FRS 102

Under FRS 17 the expected return on the defined benefit fund assets was recognised in the profit or loss account. Under FRS102, a net interest credit, based on the defined benefit asset is recognised in the profit or loss account. There has been no change in the defined benefit asset at either 31 December 2015 or 31 December 2014. The effect of the changes has been to reduce the credit to the profit or loss account in the year to 31 December 2014 by £53,000 and increase the credit in the comprehensive income by the same amount.

Glossary

Corporate Governance

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

Deferred Acquisition Expenses (DAC)

Costs arising from the conclusion of insurance contracts that are incurred during a reporting period but relate to a subsequent reporting period and are carried forward to subsequent reporting periods.

FRS 102

A Financial Reporting Standard issued by the the Accounting Standards Board.

Fund for Future Appropriations (FFA)

The balance sheet item required by Schedule 3 to the Regulations to comprise all the funds the allocation of which to policyholders has not been determined by the end of the reporting period.

Long Term Business Provision (LSFSTBP)

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

Own Risk and Solvency Assessment (ORSA)

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

Realised and unrealised gains or losses

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

Reinsurance

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

Solvency II

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

A variation of the Net Premium Method which increases the future premiums valued to take account of acquisition costs incurred.

Notes

Shepherds Friendly
Your modern mutual

to make members feel valued

to remain mutual when in our members interests

to provide simple, value for money financial solutions

to be a place where people want to work

We believe that mutuality is the best way of providing maximum benefit to our members and at the heart of the Society we have the mutual core values of trust, mutual benefit and ownership. We ensure that the money you invest with us is treated in a responsible and sensible manner to give as good a return on your investment as possible.

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