The Shepherds Friendly Society Limited

Report of the Board and Financial Statements

31st December 2017

Final 20042018

Shepherds Friendly Society

Our Directors and Advisers

Non-Executive Directors
Joanne Hindle - Chairman
Nemone Wynn-Evans – Senior Independent Director
Geoffrey Ross
Simon Pashby
Roger Turner

Executive Directors
Ann-Marie O'Dea – Chief Executive
Kim Harris – Managing Director
Justine Morrissey – Finance & Risk Director

Company Secretary and Registered Office
Tim Robertson
Haw Bank House
High Street
Cheadle
SK8 1AL

Chief Actuary and With-Profits Actuary
Christopher Critchlow BSc FIA of OAC PLC

External Auditors
Moore Stephens LLP

Internal Auditors
Mazars LLP

Tax Advisors
PwC LLP

Bankers
Royal Bank of Scotland PLC
Barclays PLC

Investment Managers
LGT Vestra LLP
Legal & General Investment Management Ltd

Property Managers
Matthews and Goodman LLP, Manchester

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Shepherds Friendly Society Limited is registered and incorporated under the Friendly Societies Act 1992, registered number 240F.

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

Tel: 0800 526 249
Email: info@shepherdsfriendly.co.uk
Website: www.shepherdsfriendly.co.uk

Chairman's Statement

I am pleased to report that 2017 was another very successful year for the Society. Our main measures of success such as net growth in Membership, increased sales volumes, healthy investment returns and diversification of our activities all performed in a positive manner. The Chief Executive will elaborate on these areas further.

It is greatly encouraging to be able to say to our Members that we are going from strength to strength as I am sure they, like us, will feel we are operating in a highly unusual world. Never before has there been an American President like this one, never before have we left the European Union, and although we recognise we will see interest rates start to rise, never before have they remained so low for so long, and how often do we see a minority Government having to cope with these extraordinary challenges?

What can we take from this apparent mismatch in events and circumstances?

My view is that as a relatively small mutual Society we can prosper, whatever the consequences of bigger political and economic circumstances, if we focus on our core values of doing the very best for our Members at all times. By offering them competitive and attractive products, through distribution channels they like to use, and backed by great after sales service we will continue our trajectory of the last twelve years of continuous growth.

As Chairman I regard my role as central to setting the strategic direction of the Society, and ensuring the highest standards of governance and risk management are in place to deliver the strategic objectives safely, and for the greater benefit of our Members. I must give thanks to all my Board colleagues, executive and non – executive, in achieving this. They are all unstinting in their effort, professionalism and dedication to driving the Society forward to continuing prosperity.

We cannot rest on our laurels though because society is changing at perhaps a more rapid pace than ever before. Today ideas come and go with considerable rapidity as a result of social media. The way younger consumers learn about many things, including financial services, and then how they acquire such products bears no resemblance today to what it looked like just eighteen years ago at the turn of the millennium. This pace of change is inexorable and, no doubt, things will look very different again in 2026 when the Society will be celebrating its bi-centenary!

To ensure we remain at the forefront in these new world techniques we took a strategic decision in 2017 to invest in a "fin-tech" firm both as an investment and as a long-term business development and learning opportunity. We have designated 2018 as "the year of technology" in our three-year Strategic Plan, and I am confident the changes we make in 2018 will build a great foundation for our future growth.

I must also mention the exceptional leadership provided by our Chief Executive Officer, Ann–Marie O’Dea, in this field. We are fortunate, indeed, to have her expertise in this critical technology led marketing field. Absolutely the right person at the right time and it gives us great confidence that we will continue to prosper from innovative sales, marketing and distribution techniques.

We very much look forward to reporting further growth this year as our strategy continues to develop.

Finally I would like to thank the Executive team, Senior management and Staff for all their hard work, and for their dedication to our Members during 2017.

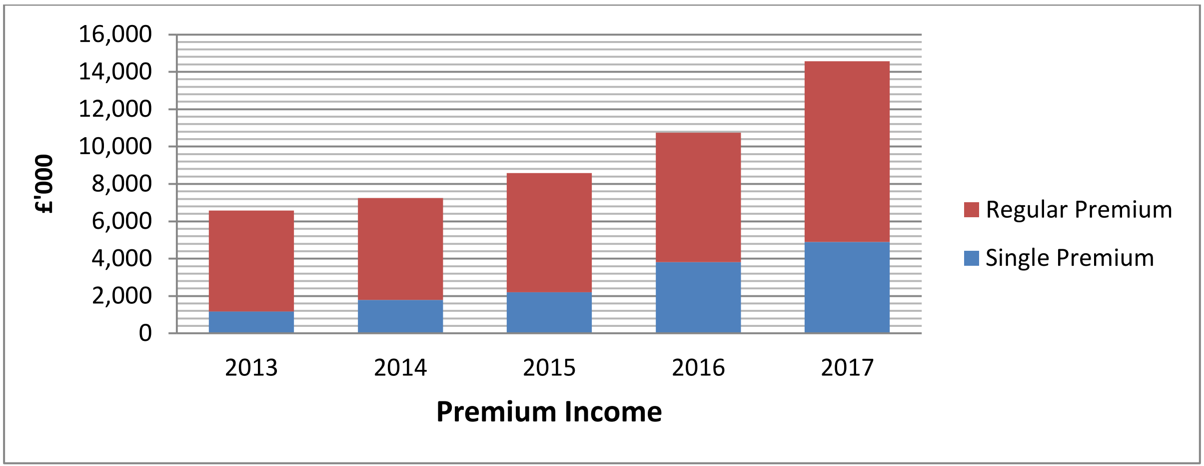
Joanne Hindle
Chairman
18th April 2018

Chief Executive's Report

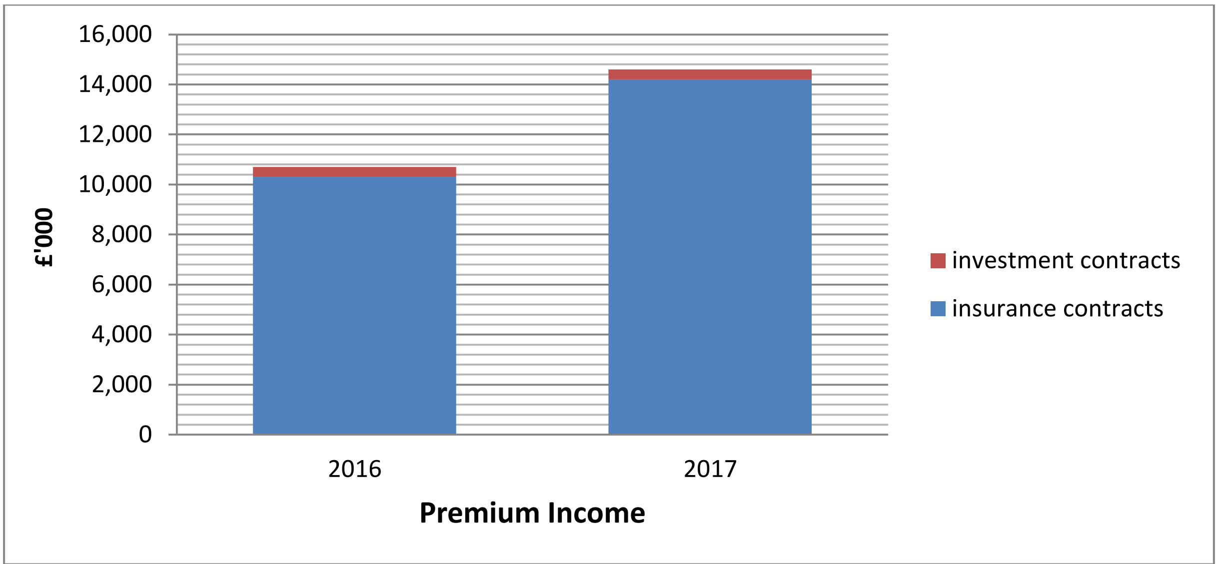
Last year I was able to report significant increases in all areas of business for 2016 which we knew would make it very challenging for our team to better them in 2017. It is therefore with great delight I can report that in 2017 we have significantly beaten our 2016 performance, without taking any undue risk. The strong foundations we laid in 2016 meant we were able to hit the ground running immediately in 2017 and benefit from a whole year's production based on the robust underpinnings of 2016.

The charts below illustrate how well we did in respect of growing our Membership base and our product sales.

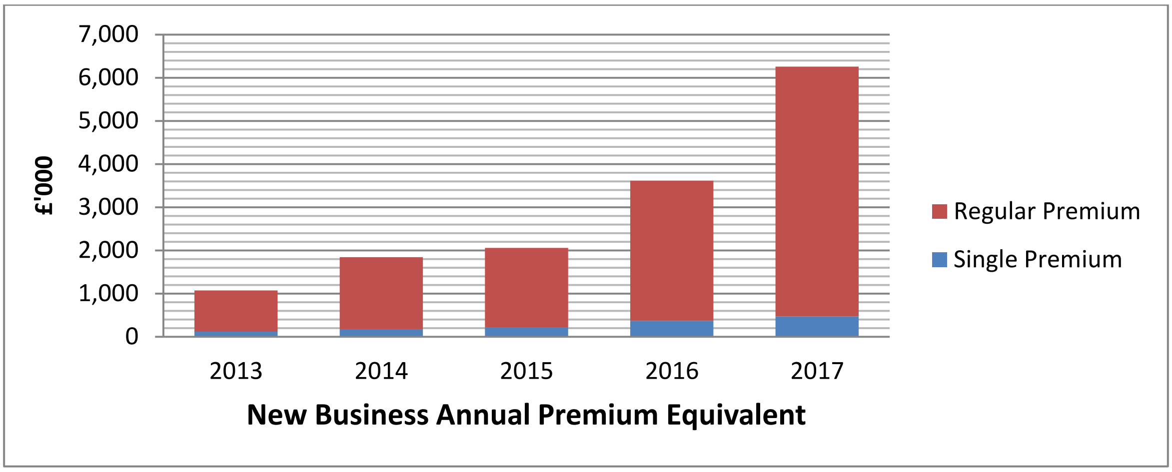
Total premium income received increased from £10.7m in 2016 to £14.6m in 2017, an increase of 36%.



Total gross premium income of £14.6m (2016: £10.7m) comprises statutory gross insurance premiums written in respect of insurance contracts of £14.2m (2016 £ 10.4m), and premium income from investment contracts of £0.4m (2016: £0.4m). Insurance and investment contracts have been classified in accordance with FRS102.

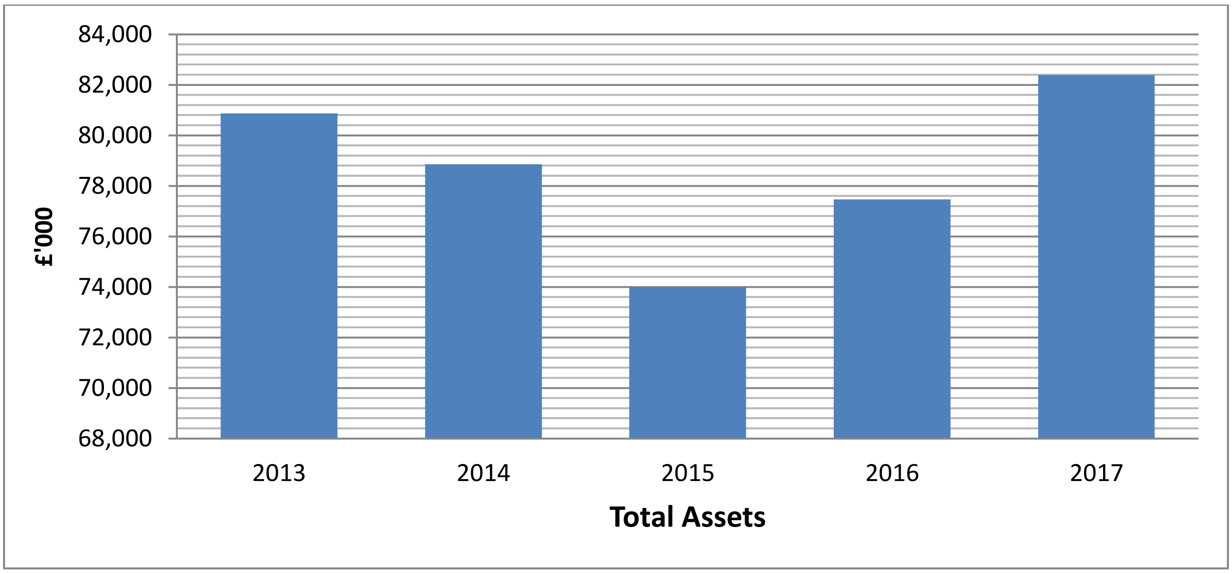


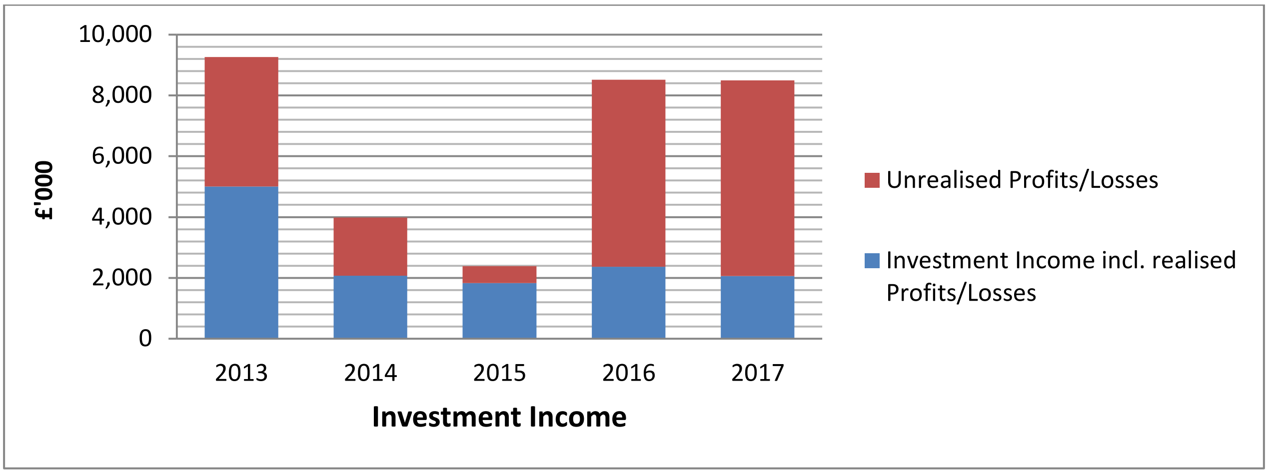
Converting total premium income to the industry standard measure of Annual Premium Equivalent we achieved £6.3m in 2017, an increase of 75% over 2016.



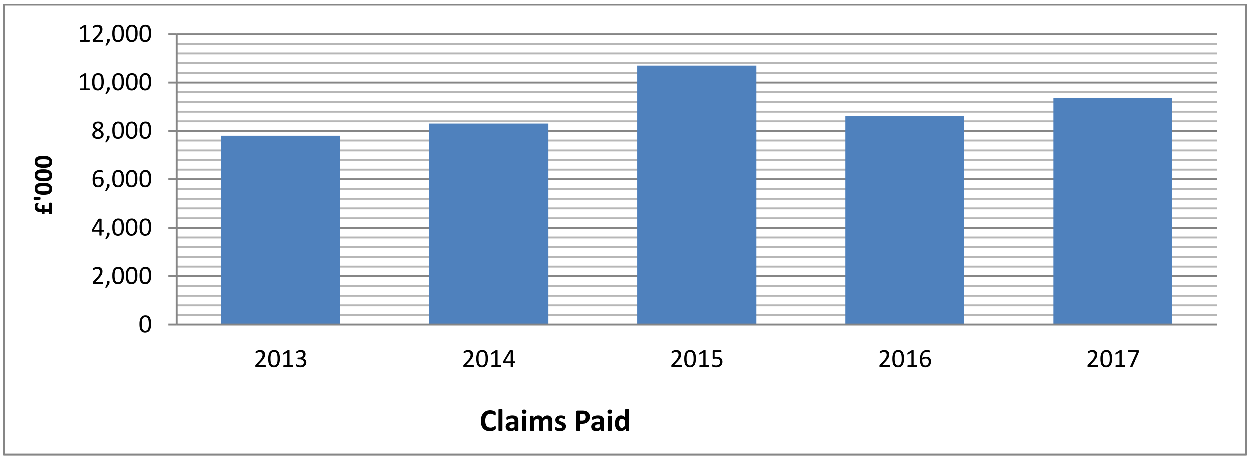
In terms of numbers of Plans sold and the growth in our Membership base the results were exceptional. Plans sold increased in 2017 to 10,713 from 6,717 in 2016, an increase of 60%. Our Membership base increased from 86,918 to 91,963 an increase of 5.8%. The Society currently has a relatively high number of older Plans maturing and this does hold back net growth in the Membership base. These high maturity figures are now beginning to decrease which augers well for future growth in the Membership base.

A second area of considerable importance to our Members is how well the invested assets have performed. 2017 was a very successful year for global investment markets with record highs being achieved in many markets including the USA and the UK. We benefited from this with the total value of all our assets increasing from £77.5m to £82.4m. The investment gain from income plus realised and unrealised investment gains was £8.5m representing an overall return of 10.20% (excluding CTF funds). The Society's Child Trust Fund is invested on a unit linked basis in a Legal & General managed FTSE 100 Tracker Fund and in 2017 achieved a return of 13.20%.

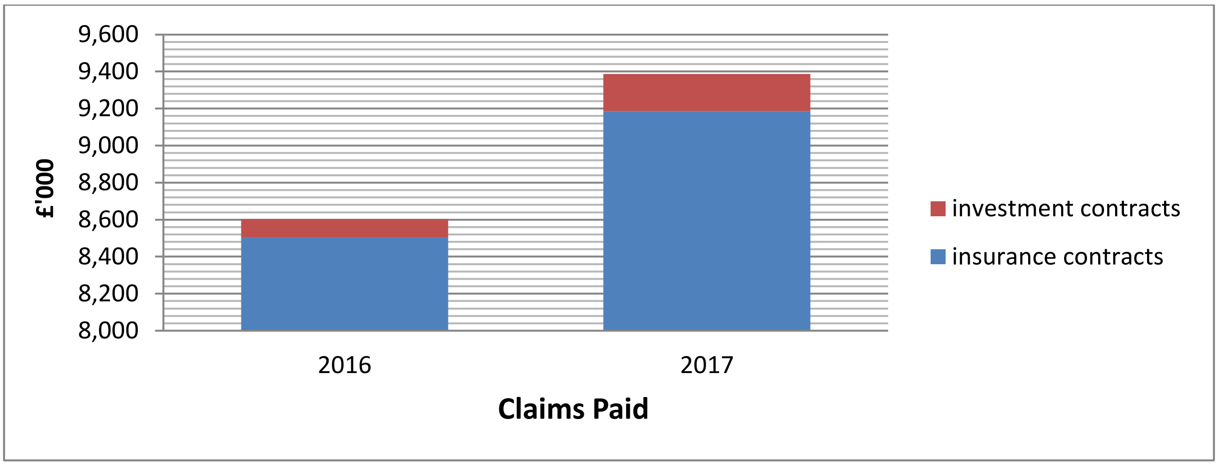


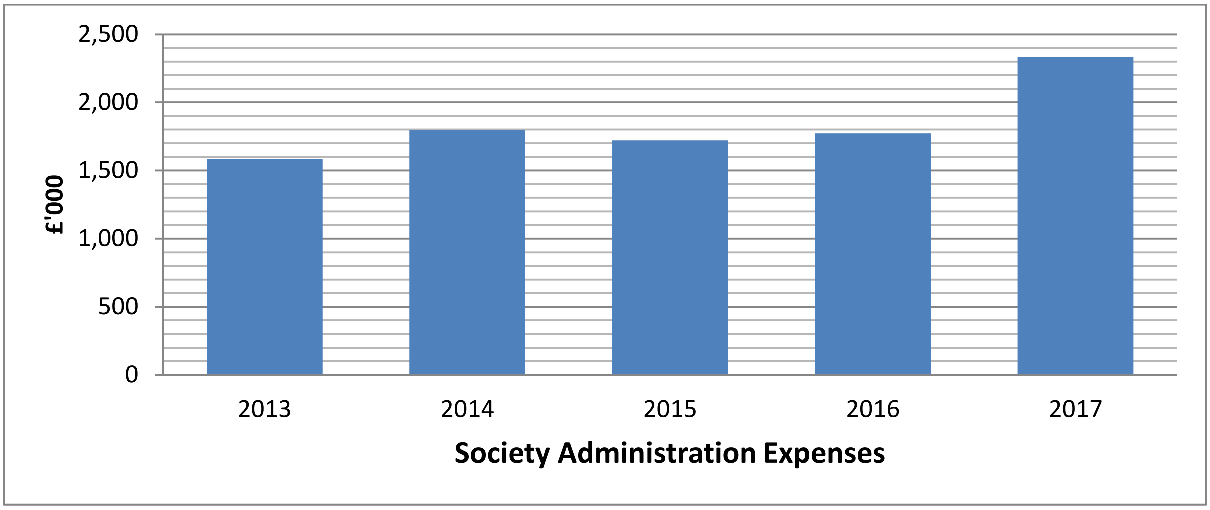


A third important area is expenses and claims and here we experienced an expected increase resulting from our investment in new business acquisition. The most significant risk to the success of the Society is failing to obtain substantial volumes of sales and particularly sales of Income Protection Plans. Obtaining such sales is a highly competitive activity as the main distribution channel remains intermediaries.



Total Claims in payment of £9.4m (2016 £8.6m) include statutory Claims paid - gross amount per the Statement of Comprehensive Income of £9.2m (2016 £8.5m) and transfers out in respect of contracts classified as investment contracts under FRS102 of £0.2m (2016 £0.1m).



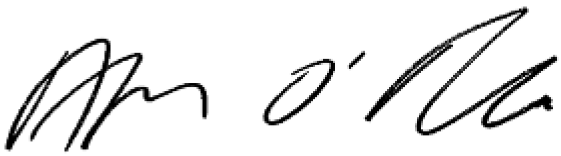


In accepting higher levels of expense and claims it is essential that we still improve our financial strength. New business sales must be profitable in the long term and therefore our focus is always on its underlying long-term profitability.

We measure the overall financial strength of the Society by reference to its Solvency Ratio which is a commonly used measure of solvency. Our objective is to maintain a Solvency Ratio of between 150% and 250%. At the end of 2015 the Solvency Ratio was 186% and by the end of 2016 it had increased to 206%. The figure for the end of December 2017 is 235% demonstrating that we continue to improve our overall financial strength.

We are therefore satisfied that our overarching strategic objective which is "To continue to write increasing volumes of profitable new business to mitigate our biggest risk and fulfil Member expectations by meeting their Plans' objectives", is being successfully delivered.

We remain confident that we can continue to grow further during 2018. Central to this will be the development of our website as an enabler to attracting new members, allowing existing ones to manage their affairs and, thirdly, providing vital intermediary supporters with a leading-edge trading facility with us.



Ann-Marie O'Dea
Chief Executive
18th April 2018

Final 20042018

Strategic Report

The purpose of this Report is to provide an insight into the business performance, forward-looking strategy and the general market environment of Shepherds Friendly Society Limited. In so doing it seeks to add more colour to the numbers contained in the Financial Statements provided later in this document.

Business Performance

2017 was a successful year for the Society and the preceding Report from the Chief Executive provides the highlights.

Shepherds Friendly is a Society which has a wider commercial base than many of its competitors because it is active across a range of product categories and a range of distribution channels. The product range is diversified across with-profits saving and investment, income protection and whole of life insurance for the over 50's. The Society also holds regulatory permissions for other product types, currently unused, but which may enable it to pursue further diversification opportunities either alone or in partnership with others.

It is a key business performance strength for the Society that it can pursue a growth strategy across a range of product types and distribution channels and this also reduces concentration risk generally.

Through its wholly owned subsidiary, Financial Advice Network Limited, the Society has a strong capability to offer wider financial planning advice to its growing Membership base. In 2017 the Society has further developed its future technology capability through a minority investment in a "fin-tech" company.

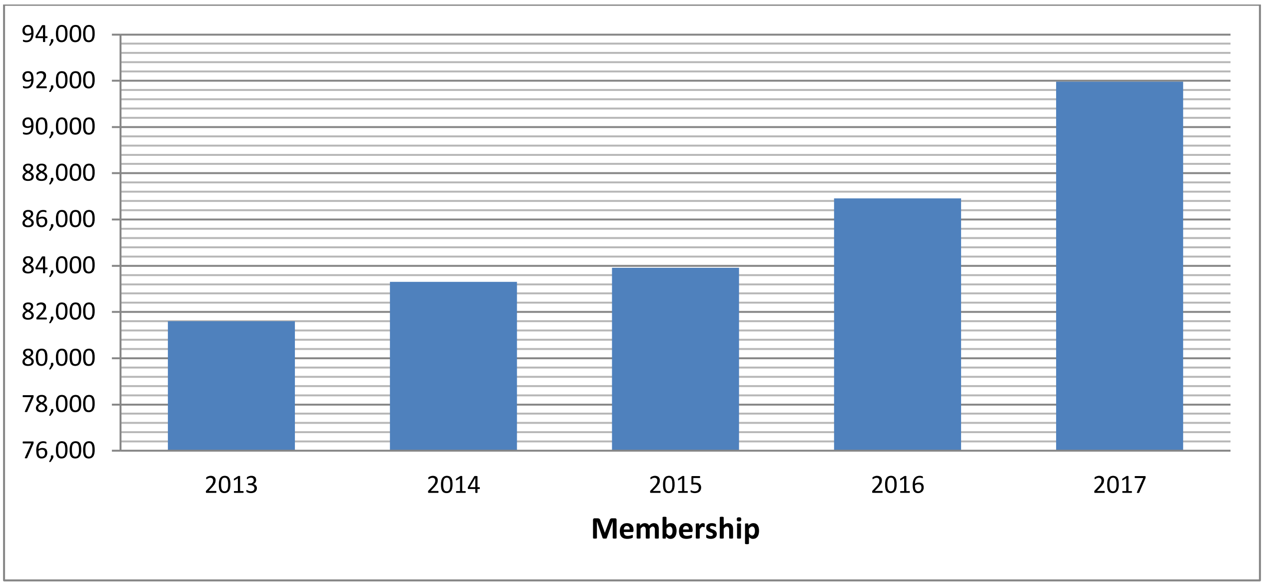
Overall business performance in 2017 was strong and the Society continued to position itself to take advantage of new business opportunities on a range of fronts.

Forward looking Strategy

The Society dates back to 1826 and is the oldest Friendly Society open to new business. For its first 178 years it pursued a substantially unchanged business strategy of gaining new Members predominantly by referrals from existing Members and by some modest advertising activity. This led to a year on year decline and to such an extent that by 2004 the Society was in a position where closure was imminent.

Therefore, it was an imperative to re-launch the Society and this was done with a revised product range, new and varied routes to market and a wholehearted engagement with a technology led future.

The new strategy commenced in 2005 and has resulted in a continuous growth in new policy sales, and therefore Membership, as shown in the graph below –



Today the Society remains committed to continuing this strategy and, because it now has a varied product range and a number of distribution techniques, it can manage in a much more agile manner, how it generates new business. This is important both in terms of the Society generating a growing Membership base as well as enabling it to manage a variety of insurance risks and operational risks to best effect.

The strategy going forward for the medium term will not change. However, it will of course "flex" in response to changing consumer trends and the external market environment. The Board remains firmly of the view that technology will continue to become an increasingly dominant force in the buying behaviours of the public, especially so for the younger generations, but by no means will it be ignored by the older generations as well.

The Society is committed to continuous development of its technological base, both as a means to control administration and distribution costs, but also as the means to reach a far bigger audience than ever before. Even in situations where the economic environment causes less disposable income and some market shrinkage, accessing a much wider market should enable the Society to continue to grow its own market share.

To ensure progress in this vital arena the Society has invested significantly not only in its in-house systems and internet and social media capability, but also in staff with the right technological knowledge and skills bases to deliver success. The minority stake in a "fin-tech" company will also be of benefit from synergies going forward.

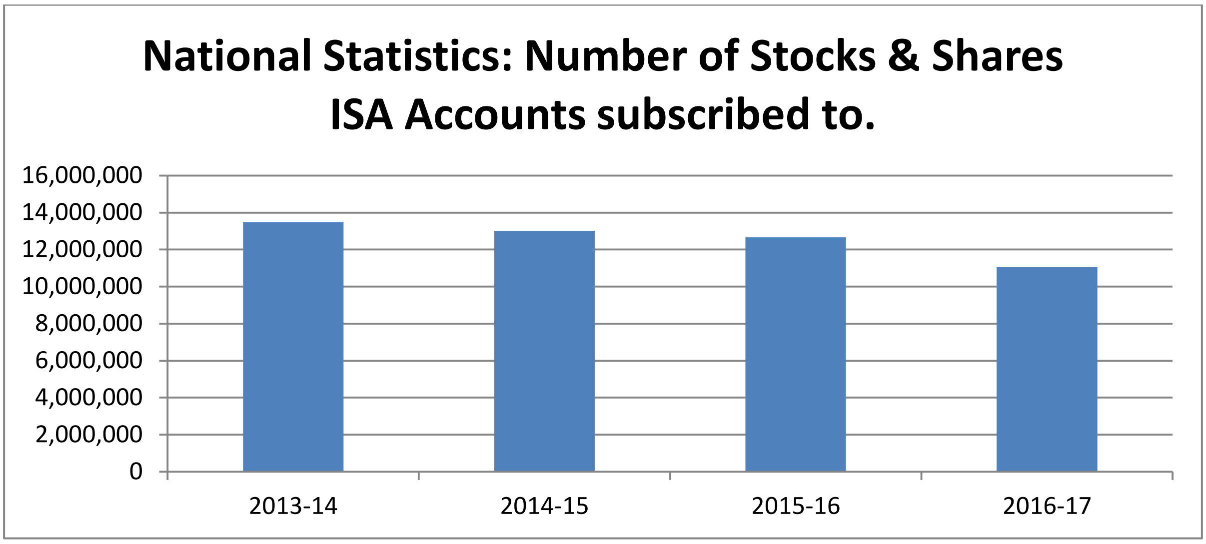
Market environment

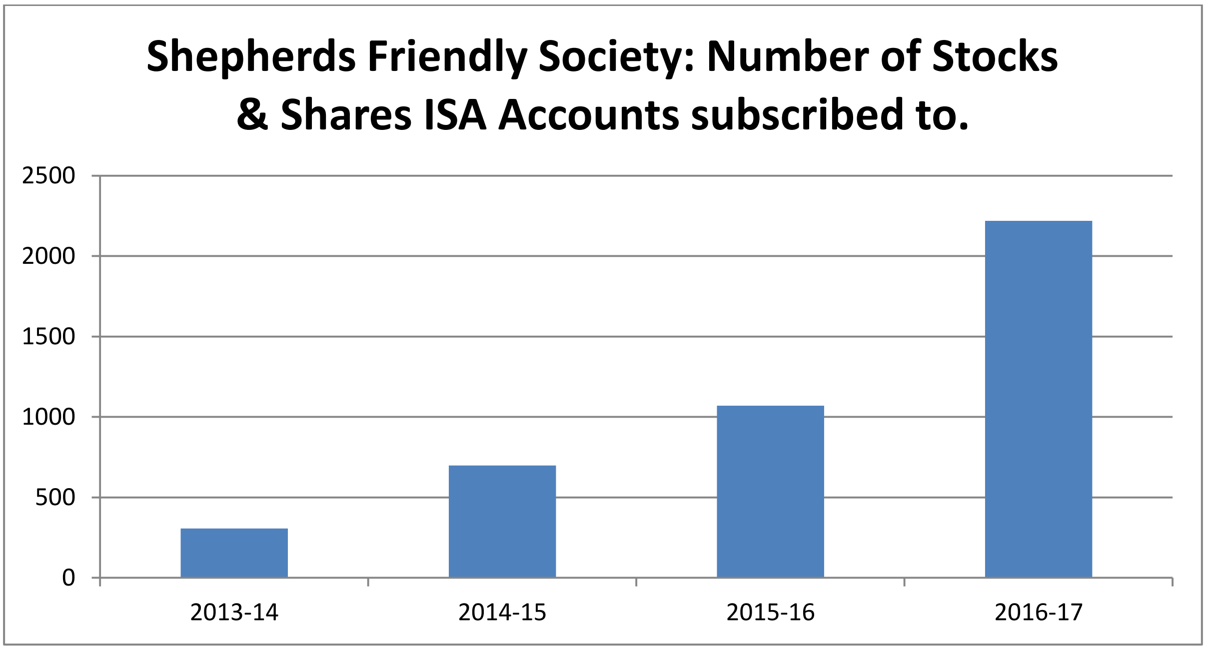
In our view there are three major external factors at play in our market place and none of them have been, or are likely to be, positive influences within the next 5 years.

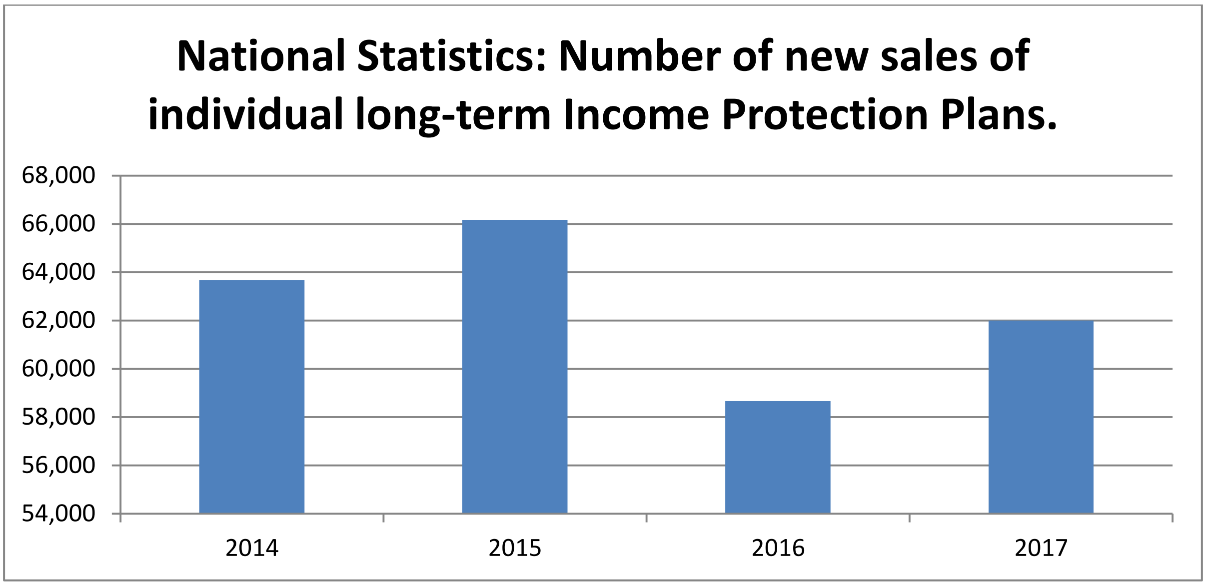
Firstly, we see the market environment as, at best, "flat" in terms of consumer propensity to invest or protect via insurance-based products. Mainly we believe this to be a result of income and surplus disposable income declining, for a number of years in real terms, as a result of the general economic squeeze and the return of higher price inflation.

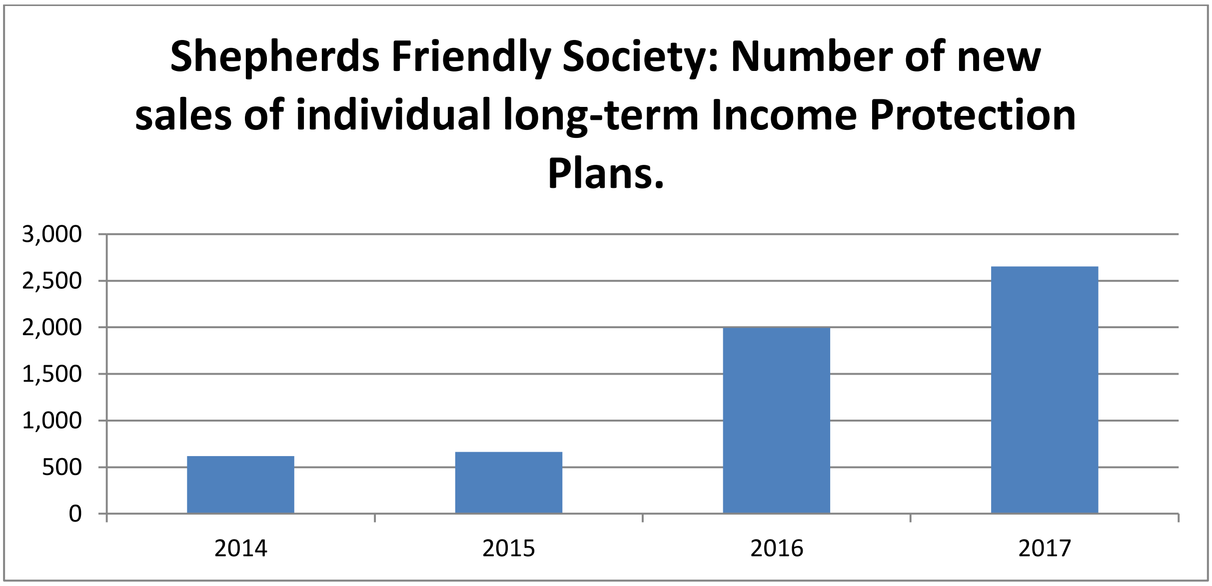
For example, Government statistics show a decline every year since 2014 in the number of people investing in ISAs and an overall fall in the amount invested in them. Similarly, industry statistics show a decline in the number of people with income protection policies.

As can been seen from the following graphs, against poor market trends the Society has succeeded in increasing its share of the market both for ISA's and Income Protection polices, testament to the power of technology led marketing strategies.









Secondly, an important factor over recent years, and one which shows no sign of abating, is the impact of regulation on both the Society as a business and its members as policyholders. It was inevitable, and rightly so, that following the financial crisis and banking collapse that there would be significant and far reaching regulatory change. However, the insurance industry in the UK, which did not feature as a problem in the financial crisis, has been subject to immense regulatory change and we believe this has been disproportionate to any economic or consumer detriment posed by our industry.

New regulations of great complexity have emerged from the European Union and been transposed into UK Regulation by the post crisis, twin UK regulators. Examples include The Solvency II Directive, The Senior Insurance Manager Regime, The Markets in Financial Instrument Directive, The Insurance Distribution Directive and The Packaged Retail Investment and insurance Products Directive.

There has been a heavy financial cost in complying with these regulatory changes, and for some eight years now Boards and senior management teams have spent much of their time devoted to regulatory matters.

The time may be approaching when significant regulatory change will decrease. However, it is yet unknown if the UK's exit from the European Union will cause significant workloads as legislation is re-constructed.

Thirdly, there is unprecedented politically uncertainty represented by a UK government without an outright majority, an unusual United States president and of course the UK exit from the European Union. All of these situations are volatile and within our medium-term planning horizon are likely to cause further change and, with change, comes uncertainty. They are beyond our control and we will continue to deploy our strategy which we believe gives us the ability to flex our business model at relatively short notice to accommodate change as it occurs.

Risk Management Report

The management of risk has become a significantly more important function since the financial crisis for all financial services firms and we are no exception. Far greater resources are rightly applied to this than in the past, and increasingly sophisticated tools are used to predict, manage and mitigate the forward-looking risks identified.

Risk Management Framework

Within the Society risk management is multi layered, both in terms of employee and Board involvement and in levels of risk materiality.

All staff and all Board members have access to an on- line system ("The Risk Database") enabling them to enter new risks and manage existing risks as an embedded part of their routine business activities.

This system also enables a deteriorating risk position to be shown by individual risk, and triggers alert messages to the relevant level of management should the sensitivity level be breached.

Within this Risk Management System, the individual risks are graded which facilitates management of the most material risks at Board level.

Whilst the Risk database is the operational risk management tool, the Risk Management Framework consists of a wider set of documented methodologies including -

- A Board Risk Management Policy statement.
- A structured approach to setting Risk Appetite and Risk tolerances.
- A documented corporate governance framework.
- A documented operational systems and controls library.

An Executive Director is allocated as the Society's Head of Risk and the Risk Committee consisting of independent Non – executive Directors who have overall governance oversight of risk within the Society (please see their Report on page 31).

Risk Appetite and Tolerances

In January 2016 the European Solvency II Directive came into being and has been a major influence on how risk is managed. It requires the Society to undertake, as part of its Strategic Planning, a "forward looking assessment of own risks" and to produce as a result of this an annual "Own Risk Solvency Assessment" (ORSA).

This has established a strong link between business planning, risk assessment and capital management. It ensures that medium term strategic business activities are considered not only in the context of what they may deliver as benefits, but also the degree of risk being taken and how this could adversely impact solvency if too much surplus capital is put at risk.

The Society is required to have an ORSA production policy in place and this ensures that the whole Board of Management is involved in delivering the ORSA, and inherent in this process is setting the Society's Risk appetite and tolerance ranges for each risk. The Risk Appetite Statement then informs the Strategic Plan in terms of available capital and the risk tolerance levels for business development activities going forward.

Within the ORSA is an analysis of the material risks faced by the Society and a summary of these is shown below.

Summary of material risks

Risk	Description	Management and mitigation
Credit Risk	This is the risk that the Society has third party relationships and, that one or more third parties it relies upon, defaults in some way. In turn this then leads to significant loss of either invested financial assets or business critical operational systems.	Before entering into any third-party relationship, the Society conducts due diligence, at an appropriate level of detail, on the proposed partner. The Risk Committee, the Audit Committee, With Profits Committee and Investment Committee are all involved in oversight of third party relationships.
Insurance Risk	Contained within insurance risk are factors such as the levels of morbidity, mortality, persistency, and expenses. If these fluctuate significantly outside of forecast ranges, then profitability and solvency may deteriorate.	Set appropriate levels of new business by product type and monitor closely the rates of claim and persistency being experienced. Adjust business volumes and new business sources to ensure any deteriorating experience is countered.
Market risk	This risk involves large movements in the financial markets such as interest rate rises and falls, stock market swings and changes in the values of investment properties. Movements in the rate of inflation are an important element within market risk as are major political changes. Sudden large collapses in the value of financial assets can lead to poor investment returns and may threaten solvency.	The Society sets out in its Principles and Practices of Financial Management the investment parameters for the investment of its assets in a prudent manner and relative to the nature of the liabilities being under-pinned. Based upon these parameters its Investment Management company invests in line with a formal Investment Management Agreement which is monitored by the Investment Committee

New Business Risk	The Society must continue to generate growing volumes of new business sales to ensure it can continue to fund ongoing business operations and generate the returns and benefits reasonably expected by its policyholders. If this is not achieved, then the risk emerges of spending too much of the member's surplus to meet operational cost over-runs.	Maintain a varied product range and varied distribution channels to provide continuous flexibility and adaptability to changing market circumstances. Set new business targets in line with the strategic plan and risk appetite/tolerances. Monitor competitor activity and emerging insurance market changes to capitalise at an earlier opportunity when opportunities are identified.
Operational Risk	Included in this risk are matters such as reliable customer business processes, complying with legal and regulatory matters, data and IT security and business continuity /disaster recovery capability. If there are failures in these areas, then financial penalties such as fines and compensation could be incurred. This would cause reputational damage leading to loss of existing and new customers.	By ensuring there are detailed policies/processes/procedures written for operational activities, deliver a low risk operational environment. Monitor this through the "three lines of defence" approach and implement any recommended corrective actions.

Corporate Governance

Director Profiles/Information

We show below the members of our Board in 2017 along with their personal profiles.

All of the non -executive directors meet the definition of independent directors as provided by the UK Corporate Governance Code (as annotated for Mutual Insurers).

We also confirm that the additional commitments of the Chairman do not have any adverse effects on her capability to fulfil her role of Chairman of the Society.

Joanne Hindle - Chairman

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

Joanne currently works as head of legal for part of the AXA Group as well as chairing the Board of the Holmesdale Building Society.

Ann-Marie O'Dea - Chief Executive Director

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

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

Nemone has 20 years' executive and non-executive experience in the financial services sector, across wholesale and retail, including as a former Finance Director on the main board of a stock exchange. Currently she is Chief Operating Officer at a Multi-Family Office providing investment management services, a non-executive director of a regional building society in the Midlands and also a non-executive director of the commercial arm of a university.

Nemone's board experience includes corporate governance, financial leadership, corporate finance, corporate communications, investor relations, regulatory liaison, risk and compliance and business development. She is a Fellow of the Chartered Institute of Securities and Investment, an Associate Member of the Chartered Institute of Marketing and holds an MBA from Cranfield School of Management, and read PPE at Merton College, Oxford.

Simon Pashby – Non-Executive Director

Simon is a Chartered Accountant and former audit partner with over 30 years' experience working in financial services. He has experience of advising a wide range of organisations in financial services on risk, regulations and controls.

Simon retired from KPMG in 2012 and now works as an independent non-executive director and maintains his current knowledge as a Fellow of the Institute of Chartered Accountants. He is Vice-Chairman of the Medical Protection Society, a members' mutual fund which provides indemnity services to the medical profession, where he chairs the Audit and Risk Committee, and is a non-executive director of the Scottish Building Society, where he chairs the Risk Committee.

Roger Turner – Non-Executive Director

Roger has extensive experience in financial services; having been a trader in fixed income and derivatives, a regulator and a consultant with PwC where he was a Partner within the Financial Services Regulatory Practice. He has worked predominantly in the UK but undertaken numerous assignments for overseas organisations most notably in the Far East and the USA.

Roger is the CEO of an asset manager in London and a Non-Executive Director of a Building Society in Wales where he is also Chairman of the Remuneration Committee. He holds a B.A. (Hons.) and a M.B.A. in Finance from the City University Business School. Roger is also a Non-Executive Director of a Fin-tech Company.

Geoffrey Ross – Non-Executive Director

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

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. She joined the Society in 2012 and became Finance and Risk Director in July 2015. Justine has 20 years' experience in the Friendly Society sector in a variety of roles from product development to regulatory reporting. The key focus of her role is the sound financial, capital and risk management within the Society.

There were 6 Board meetings and 2 Strategy days during the year as follows:-

	Jan Bm	Mar Bm	Mar Sd	May Bm	Jun Bm	Sep Bm	Oct Sd	Dec Bm
Joanne Hindle – Chairman and NED	√	√	√	√	√	√	√	√
Nemone Wynn-Evans - NED	√	√	√	√	√	√	√	√
Geoff Ross - NED	√	√	√	√	√	√	√	√
Simon Pasby - NED	√	√	√	√	√	√	√	√
Roger Turner - NED	√	√	√	√	√	√	√	√
Ann-Marie O'Dea - CEO	√	√	√	√	√	√	√	√
Kim Harris – Executive Director	√	√	√	-	√	√	√	√
Justine Morrissey – Executive Director	√	√	√	√	√	√	√	√
Tim Robertson – Company Secretary	√	√	√	√	√	√	√	√

(Bm – Board meeting / Sd – Strategy days

Directors' Report

Directors

Details of the Board of Directors, both Executive and Non- executive are given on pages 17 to 19. Information on how they have governed and managed the affairs of the Society is given in the Governance Report on pages 24 to 29.

Business Objectives and activities

Shepherds Friendly Society Limited is authorised by the Prudential Regulatory Authority and the Financial Conduct Authority to conduct long term insurance business in the United Kingdom. The Society is categorised as a Directive Friendly Society and is subject to the European Union Solvency II Directive.

The Society has Limited company status and under the terms of The Friendly Society Act 1992 carries out certain types of long term insurance business and also operates a subsidiary company.

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

The Board sets objectives and priorities supported by KPIs and targets, which it monitors on an on-going basis throughout the year. A summary of the results for the year together with the KPIs are contained in the Chief Executive and Strategic Reports on pages 5 to 13.

2017 saw the start of the Society embarking on the first year of its latest three year Strategic Plan, with the statement of strategic intent as defined by the Board being:-

"To continue to write increasing volumes of profitable new business; this will mitigate our biggest risk and fulfil member expectation by meeting their Plans objective".

The success of the 2017-2019 Strategic Plan will be measured by the achievement of two key objectives:-

1. A figure of 100,000 in force plans;
2. A solvency ratio of between 150% - 250%.

Complaints

Shepherds Friendly Society operates a fully documented complaints handling process which meets the requirements set by the Financial Conduct Authority. If an eligible complainant is dissatisfied with an outcome, then they have full recourse to the Financial Ombudsman Service with whom we co-operate fully.

Financial Crime

The Society remains conscious of the increasing threat financial crime poses to the business and to its policyholders. It pays particular attention to the growing risk from cyber-crime, which outweighs any other form of financial crime or fraud that the Society may be exposed to. Measures are also in place to counter money laundering, financial fraud and any potential commercial conflicts of interest.

Directors' and Officers' Liability Insurance

The Directors have the benefit of the indemnity provisions contained in the Society's articles of association and the Society has maintained throughout the year directors and officers liability insurance for the benefit of the Society, the directors, and its officers .The Society has entered into qualifying third party indemnity arrangements for the benefit of all its directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force. Limit of Liability is £2,000,000 for each policy period.

Diversity and equality

We remain committed to eradicating in our business any form of discrimination related to gender or ethnicity and, as stated on page 27 of the Governance Report, we are proud of our achievements in this respect.

Employees

Shepherds Friendly is committed to a policy which ensures that, in all aspects of recruitment, training and career development, equal opportunities are afforded to job applicants and employees irrespective of their age, race, religion, sex, marital status, sexual orientation or disability. If employees become disabled during the period of employment, Shepherds Friendly will endeavour to retrain or redeploy individuals to enable their employment to continue.

Solvency Statement

The Board confirm, having received guidance from the Society's actuary, that the Society had a solvency level significantly higher than that required under the Solvency II Directive calculations at the year-end date of 31st December 2017 and throughout the year.

The Society will publish full details of this in its Solvency and Financial Condition Report which will be made available on its web site during 2018.

Going concern statement

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the Financial Statements on a going concern basis. The Society's business activities, together with the factors that are likely to affect its future development and position are set out in the Strategic Report commencing on page 9. The analysis of risks faced by the Society and how it mitigates them is in the Risk Management Report commencing on Page 14.

From the above analyses, and as a result of the Board's consideration of its long-term viability as set out on page 21, the Directors are confident that the Society has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Statement of Responsibilities of the Board of Directors

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

The Directors are also responsible for preparing the Strategic Report (please see Page 9, the Report on Corporate Governance (please see Page 24) and the Financial Statements (please see pages 44 to 47), in accordance with applicable law and regulations.

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

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

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

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

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

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

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

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

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

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

The Board confirms that, in its view, it has complied with the above requirements in preparing the Report and Financial Statements and that it considers the Report and Financial Statements, taken as a whole, are fair, balanced and understandable.

Disclosure of information to the Auditors

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

Auditors

Moore Stephens LLP (London) were appointed as external auditor to the Society on the 13th November 2017, and have confirmed their independence to the Board of Directors. A resolution to re-appoint the Moore Stephens LLP (London) will be proposed at the 2018 Annual General Meeting.

Actuarial Function

Shepherds Friendly Society Limited outsources its actuarial function to OAC PLC. Christopher Critchlow of OAC PLC is the Actuarial Function Holder and With Profits Actuary.

T Robertson
Company Secretary
18 April 2018

Governance Report

Introduction

The extent and complexity of Corporate Governance activities has increased substantially over the last 10 years as Governments, Regulators and Financial Service Companies all strive to ensure there will be no repeat of the financial crisis of 2007. This change is to be welcomed by all of us as it serves to build mutual businesses, such as ours, to even higher levels of member satisfaction and financial safety than ever before. We are proud of the way we have always put our Members first – after all we are owned by you – and are highly committed to meeting all the good governance standards expected of us.

The Society delivers high standards of corporate governance by having documented policies and procedures which generate internal systems of control enabling the Society to be well managed. The effectiveness of the systems and controls are monitored by a "three lines of defence" approach consisting firstly of the senior management team, secondly, the internal compliance function and their consultancy advisers, and thirdly, the internal audit function (which is provided by an outsourced provider). Outputs from the three lines of defence enables the Board, and especially the Board Committees led and manned by the independent non -executive directors, to have governance oversight of the whole organisation. The directors are able to confirm as a result of these processes that the Society has effective systems and controls in place.

The Society is not large enough to have its own Internal audit staff and therefore this function is outsourced to a professional internal audit firm.

Historically we were governed by the Friendly Society Acts, and still are, but this century other governance regimes have also come into play, which have much improved overall standards and Board of Management control over such matters. These are each discussed below.

The UK Corporate Governance Code (Annotated for Mutual Insurers)

Your Society is a member of the Association of Financial Mutuals and as such is committed to satisfying all the standards set by this Code. The Code is based upon the UK Corporate Governance Code and has been amended to reflect the differences that exist between a mutual company and a shareholder owned company.

The Code has five main sections which are –

- Leadership
- Effectiveness
- Accountability
- Remuneration
- Relations with Members

Within these Sections are a number of Main Principles, expressing how the Board and individual directors should operate, and we describe below how your Board of Management has achieved full compliance with these throughout 2017.

Leadership

Your Board has provided effective entrepreneurial leadership of the Society as evidenced by its on-going business growth and success. It has achieved this by setting a successful business strategy as described in the Strategic Report on page 9. It is the responsibility of the Board to set the strategy for the business and to define its risk appetite in support of the strategic objectives. The Board is responsible for the performance of an Own Risk Solvency Assessment at least annually and that process incorporates within it setting strategy and risk appetite.

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

The non-executive directors on the board are competent professionals and effectively challenge the Executive team, as well as developing the forward-looking strategy of the Society. The non -executive directors are all fully engaged in the annual production of the Society's strategy documents including the Own Risk Solvency Assessment.

Effectiveness

Your Board has been carefully selected using an open market search, and assessment by panels, to ensure there is a wide spread of specialist skills relevant to the business we are in. All non-executive directors meet the definition of being independent and we monitor that they all have sufficient time availability to fulfil their duties.

We operate an on-going annual assessment process of the Board as a whole, and of the individual directors, supported by a professionally qualified Human Resources Senior Manager. This ensures operational effectiveness of the Board can be continuously improved, and that individual directors have development plans to build upon the induction training they received upon commencing their roles. Non-executive directors are subject to annual re-election during their term of office and their nomination is subject to the outcome of their personal assessments.

The Board recognises the need to conduct a Board effectiveness review at least every three years with external facilitation of the process.

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

Accountability

Your board presents a fair, balanced and understandable assessment of the Society's position and prospects to its Member's by the publication of this Annual Report and Financial Statement and of the Solvency and Financial Condition Report. Both documents are prepared in conjunction with the Society's Auditors, its Actuary and other Governance Consultants, which ensures the views of the Board are independently assessed as part of the production process. Both documents can be easily accessed on the Society's web-site.

Each year the Board is required to prepare another document – an Own Risk and Solvency Assessment (ORSA) – which is a regulatory requirement. This document encapsulates an analysis of the current and forward-looking risks faced by the Society as it seeks to implement its strategy, and describes how capital will be managed to prevent a crystallisation of such risks creating an insolvent position.

The Board is also responsible for arranging a risk management system and internal control mechanisms, which it does by operating a software based Risk system supported by a comprehensive range of Policies, Processes and Procedures. The effectiveness of these systems is monitored both by the internal compliance team and the independent Internal Audit firm.

Remuneration

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

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

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

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

Relations with Members

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

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

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

We are pleased to confirm that we have satisfied all the main and supporting Principles of the UK Corporate Governance Code (Annotated for Mutual Insurers).

Governance of Diversity and Equality

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

The Society recognises and values the benefits of having a diverse Board and currently has a Board which is 50% male and 50% female. For the first time in the Society's history, we have a female Chairperson and a female Chief Executive Officer.

The Society aims to recruit staff with a diversity of skills, experience and background to ensure that we maximise all available talent. Looking at the Society's people, we currently have an equal gender split of 50% male and 50% female. 4.5% of our staff are from an ethnic minority.

Governance Standards of UK and European Union regulators

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

How the Society has satisfied their requirements is explained below.

Prudential requirements

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

The most important of these are the requirements whereby the Society must always maintain a capital position which makes it solvent, and means it is able to meet its liabilities as they fall due.

We are pleased to report that in both 2016 and 2017 the Society comfortably maintained such a position. A measure of Solvency is the Solvency Ratio which is a percentage showing how much capital resource the Society has over what is needed as a minimum by the regulators.

In 2016 this figure was 206% and in 2017 this increased to 235%. The regulations require us to publish each year a Solvency and Financial Condition Report and this can be found on the Society's website.

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

We are pleased to report that our 2017 ORSA was successfully completed, with the involvement of the whole Board, and that we are satisfied we are pursuing an appropriate forward-looking business strategy.

Conduct Requirements

The Solvency II Directive set a wide range of standards and requirements for how governance should be undertaken in insurance businesses across the European Union. Both the PRA and the FCA have now implemented these requirements in a far-reaching way across our industry and primarily have done so by what initially has been called the Senior Insurance Manager Regime. During 2017 the Regulator's announced this will be further strengthened and renamed the Senior Manager Regime to bring it into line with the approach applied to Banks and Investment Companies.

The regime is designed to ensure that the senior people, on the Board and within the company as senior management function holders, meet defined high standards of behaviour, and that they have an individual duty of responsibility to manage the business in a prudent and ethical manner.

For the first time, individuals holding roles captured within this regime can be held personally liable for business failures, if they cannot demonstrate that they have taken reasonable steps to perform to the standards set by the Regulator's Rules.

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

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

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

Board Committee Reports

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

Committee	Independent Chairperson
Audit Committee	Simon Pashby
Risk Committee	Nemone Wynn- Evans
Investment Committee	Geoffrey Ross
With Profits Committee	Geoffrey Ross
Nomination Committee	Joanne Hindle
Remuneration Committee	Roger Turner

A brief summary is given below of the most significant governance work conducted by these Committees throughout 2017.

Audit Committee

The primary purpose of the Audit Committee is to deliver independent oversight of the preparation of the Financial Statements and the quality of internal systems and controls. The full Terms of Reference can be found on the Society's web-site.

The Committee is also responsible for assessing whether the external auditor's performance is fully satisfactory and whether there should be a re-tendering exercise. In 2017, the Committee were 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.

There were four meetings as follows –

	28 Feb	24 April	10 July	13 Nov
S Pashby (Chairman and non-executive director)	√	√	√	√
G Ross (non-executive director)	√	√	√	√

Key items considered during 2017:-

- Considered the 2017 Internal Audit Plan;
- Reviewed the Annual Money Laundering Reporting officers Report;
- 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;

- Reviewed the completed Annotated Combined Code Questionnaire;
- Reviewed the Whistle Blowing Policy;
- Reviewed Internal Audit Reports;
- Noted the Methods & Assumptions and Experience Analysis papers for 2017 reserving purposes;
- Requested that Management look at a change to accounting policies for 2017 year-end, and any associated prior year adjustments;
- Considered the new Internal Audit Strategy for 2018.

In addition to the meetings held the Audit Committee conducted a review of the Society's Internal Auditors and on the 15th August held a 'beauty parade', receiving presentations from four audit firms. Following the presentations the Committee agreed to recommend to the Board Mazars LLP replace Gateway Assure as Internal Auditors for the Society.

Risk Committee

The main purpose of the Risk Committee is to deliver independent oversight of the risk management framework used by the Society to identify and manage the risks it faces. The full Terms of Reference can be found on the Society's web-site.

There were 5 meetings as follows –

	28 Feb	25 Apr	11 July	5 Sept	14 Nov
Nemone Wynn-Evans (Chairperson and non-executive director)	√	√	√	√	√
Joanne Hindle (non-executive director)	√	√	√	v	√
Roger Turner (non-executive director)	√	√	-	√	√
Justine Morrissey (executive director)	√	√	√	√	√
Graeme Charters (external expert adviser)	√	-	√	√	√

Key items considered during 2017:-
- Commencement of the ORSA cycle for 2017 & discussion of appropriate stress tests;
- Reviewed the Solvency II Risk Framework;
- Reviewed SFCR and RSR with recommendation of approval to the Board;
- Deep dive reviews on Data Protection, Cloud outsourcing, Outsourcing and Retention & lapses;
- Reviewed Compliance Plans for both the Society and subsidiary;
- Reviewed the Risk Management Database;
- Reviewed the Risk Appetite Statement;
- Considered the introduction of an 'ad hoc' ORSA dashboard;
- Considered the EIOPA paper on ORSA improvements
- Reviewed the Financial Condition Report;

- Final review of 2017 ORSA, ORSA Policy and ORSA Record with recommendation of approval to the Board.

Investment Committee

During the year the Investment Committee was responsible for prudently managing the investment of the Society's assets, within an investment strategy agreed by the Board, and delivered through the Society's appointed Investment Managers.

The Investment Committee was disbanded on the 14th February 2018, with the Committee responsibilities being shared by the Board, Risk Committee and the Executive.

There were 5 meetings as follows –

	16 Jan	25 Apr	11 Jul	3 Sept	14 Nov
G Ross (Chairperson and non-executive director)	√	√	√	√	√
J Hindle (non-executive director)	√	√	√	√	√
R Turner (non-executive director)	√	√	-	√	√
N Wynn-Evans (non-executive director)	√	√	√	√	√
A M O'Dea (executive director)	√	√	√	√	√
T Robertson (company secretary)	√	√	√	√	√

Key items considered during 2017:-

- Reviewed investment performance for 2016
- Considered the investment strategy for 2017;
- Considered the strategy for Fixed Interest;
- Reviewed the Hypothecated Fund ranges within the PPFM;
- Considered the Society's investments and impact on the SCR;
- Reviewed regular investment update reports from LGT Vestra.

In addition to the meetings held the Investment Committee conducted a review of the Society's investment manager, and on the 31st October held a 'beauty parade', receiving presentations from LGT Vestra plus three other Investment Managers. Following the presentations the Committee agreed to recommend to the Board LGT Vestra continue as Investment Managers for the Society.

With Profits Committee

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

The full Terms of Reference can be found on the Society's web-site.

There were 5 meetings as follows –

	24 April	10 July	4 Aug	5 Sept	13 Nov
Geoff Ross (Chairperson and non-executive director)	√	√	√	√	√
Simon Pashby (non-executive director)	√	√	√	v	√
Kim Harris (executive director)	√	√	√	√	√
Nasrin Hossain (Chief Culture Officer)	√	√	√	√	√

Key items considered during 2017:-

- Reviewed the WP Actuary Report to the Board on PPFM compliance and the exercise of discretion in 2016;
- Reviewed the WP Actuary Report, and Board Report to with profits policyholders;.
- Reviewed the valuation results as they affected with profits policyholders;
- Considered the Bonus recommendations for 2016 on Holloway business;
- Received an update in respect of the Society's review of the fair treatment of long-standing customers;
- Considered a paper on distribution of profits;
- Reviewed the Financial Condition Report;
- Reviewed the FCA Thematic Review of With-Profits Policyholder Questionnaire;
- Reviewed the With Profits Profitability Report;
- Consideration of any significant changes to the risk or investment profile of the WP fund;
- Considered Bonus Recommendation Report as at 31st December 2016;
- Noted the Methods & Assumptions and Experience Analysis papers for the 2017 Valuation.

Nominations Committee

The Nominations Committee is responsible for independent oversight of the how the Society selects, develops and plans succession for all senior managers and all Board members.

The full Terms of Reference can be found on the Society's web-site.

There were 4 meetings as follows -

	16 Jan	10 July	5 Sept	14 Nov
Joanne Hindle (Chairperson and non-executive director)	√	√	√	√
Roger Turner (non-executive director)	√	√	√	√
Simon Pashby (non-executive director)	√	√	√	√

Key items considered during 2017:-

- Reviewed Terms of Reference in light of Senior Insurance Manager Regime;
- Reviewed 2016 CPD returns and agreed 2017 CPD approach;
- Reviewed content and operation of the Governance Map;
- Approved revised 360 appraisal questionnaires and training and development matrix.
- Approved a new Board Diversity policy.
- Considered Consultation Papers, from PRA and FCA, concerning the forthcoming change from Senior Insurance Manager Regime to The Senior Manager Regime and the effects on the senior persons and the Society.
- Considered CPD results for year to date and considered plans for 2018 to include digital training.

<u>Remuneration Committee</u>

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

The full Terms of Reference can be found on the Society's web-site.

There were 4 meetings as follows -

	16 Jan	10 July	5 Sept	14 Nov
Roger Turner (Chairperson and non-executive director)	√	√	√	√
Joanne Hindle (non-executive director)	√	√	√	√
Simon Pashby (non-executive director)	√	√	√	√

Key items considered during 2017:-

- Reviewed the salary and 2018 KPIs of the CEO;
- Reviewed Executive Directors KPI's and amended them to give more focus to their specific areas of responsibility;

- A review of the final salary scheme was performed and a report to the Board prepared;
- Considered NED fees and confirmed no change;
- Reviewed and recommended for Board approval, the Remuneration Committee Report to the Board, confirming it encompassed remuneration measures across the business.
- Undertook a review of the Society's Remuneration Policy statement.

Directors' Remuneration Report

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

Remuneration Policy

The Society's remuneration policy rewards both corporate and individual performance as well as providing a competitive package to attract and retain high calibre individuals. The policy complies with the requirements of the European Solvency II Directive and all relevant regulatory obligations. We will comply with good corporate governance practice as well as relevant parts of the UK Corporate Governance Code (Annotated for Mutual Insurers).

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

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

Executive Director Remuneration

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

- Salary
  The salary level is set commensurate with that of CEO's operating similar sized businesses in our sector and is competitively pitched based on a bench marking exercise.

- Performance Bonus
  The Executive Team can earn an annual bonus following the successful achievement of both the Society's corporate and individual performance targets. The

Remuneration Committee is responsible for setting targets for the CEO that are aligned with the Society's culture and strategic goals and which are also in line with the Society's appetite for risk.

There are quantifiable measures and the potential bonus has a maximum of 30% of basic salary.

The targets are monitored at various intervals during the financial year and the final calculations are based principally on the performance of the Society measured against the agreed targets and recommended for approval by the Remuneration Committee to the Board

- Pension

  The Executive Directors participate in the Society's defined contribution group pension scheme.

- Private Health Insurance

  The Executive Directors are provided with private healthcare insurance.

Non-executive Director Remuneration

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

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

Board Remuneration 2017

Name	Salary £	Bonus £	Other benefits £	Total 2017 £	Total 2016 £
A M O'Dea	170,560	53,696	22,349	246,605	220,162
K Harris	109,182	33,076	15,755	158,013	146,422
J Morrissey	108,927	40,057	10,519	159,503	117,730
J Hindle	45,000	0	3,338	48,338	48,329
G Ross	32,400	0	3,295	35,695	35,177
N Wynn-Evans	32,400	0	1,667	34,067	34,849
S Pashby	27,400	0	3,355	30,755	11,823
R Turner	27,400	0	6,092	33,492	12,510
Total	553,269	126,829	66,370	746,468	627,002

"Other Benefits" includes contributions to pension money purchase schemes of £48,624.

Non -executive directors receive expenses for travel to and from Board meetings at Head Office and these are taxed through PAYE and are included under “Other Benefits”.

Tim Robertson
Company Secretary
For and on behalf of the Remuneration Committee
18 April 2018

Independent Auditors Report to the Members of The Shepherds Friendly Society Limited

Our Opinion

We have audited the financial statements of The Shepherds Friendly Society Limited (the 'Society') and its subsidiary (together the 'Group') for the year ended 31 December 2017 which comprise the consolidated income and expenditure account, consolidated balance sheet, Society income and expenditure account, Society balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Group's and Society's financial statements:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2017 and of the Group's and Society's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

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

Use of our report

This report is made solely to 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 assume responsibility to anyone other than the Society and the Society's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Key audit matters

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

Area of focus	Work performed to address this risk	Conclusion of findings
Valuation of technical provisions As at 31 December 2017 the Society recognised technical provisions of £56.02m (2016: £55.82m) prepared in line with the accounting policy on Long Term Business Liabilities. We consider these provisions to be material due to both their size and nature. Technical provisions are calculated using policy data held on the Society's administration system and assumptions set using internal and external data as inputs to the actuarial valuation models. The assessment of the appropriate carrying value of the technical provisions requires management to make significant judgements when determining the underlying assumptions. These judgements involve considering whether the assumptions appropriately reflect the Society's circumstances, historic experience and future expectations.	In assessing the valuation of the technical provision, we performed the following procedures: • Life actuarial experts were used to report on the methodology and assumptions applied in the calculation of technical provisions and on the accuracy of the calculation itself. • We obtained and reviewed the actuarial reports prepared by the Society's actuary and our reviewing actuary and ensured that relevant judgements and estimates have been considered in forming our opinion. • We reviewed and assessed changes to assumptions used in the calculation, considering whether these were reasonable and in line with acceptable parameters. • We substantively tested a sample of the data used by the actuaries to underlying policy data held on the Society's administration system.	Overall, based on the assumptions and methodology used at 31 December 2017, we consider the technical provisions recognised by the Society within its financial statements to be reasonable.
Revenue recognition and appropriate classification of products provided by the Society Both insurance products and financial instruments with discretionary participation features can be recognised in accordance with FRS 103. This affects their treatment within the financial statements, and in particular the extent to which receipts of funds can be treated by the Society as premiums. There was considered to be a risk that certain products offered by the Society may not meet the requirements of FRS 103. In particular there was a risk that unit linked Junior ISA ('JISA') and Child Trust Fund ('CTF') products may not have discretionary participation	In auditing the treatment of these products, we: • Considered the nature of the products provided by the Society to its membership and whether either insurance risk or discretionary participation features were present in these contracts. In particular we considered the nature of the unit-linked JISA and CTF products. We found that these products did not appear to have discretionary participation features. • Reviewed and considered the conclusions provided by the Society in relation to its treatment of its products. Following the Society's reconsideration of these products they believed the JISA and CTF products should be treated as investment	Based on the procedures carried out we are satisfied that the Society has been through an appropriate process to assess its products and reclassify unit-linked JISA and CTF products as investments products. We are also satisfied that revenue was correctly

features. This would mean that the inflows to the Society of funds in relation to JISA and CTF products should not be accounted for as insurance premiums. Instead they should be treated as investment products.	contracts rather than as insurance contracts as defined in FRS 103. • Considered the disclosures provided in the financial statements around these contracts, and around the reclassification of these products following the review by the business and ourselves. This included the restatement of the prior year comparative information within the financial statements.	recorded around the year end.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. The same materiality has been applied to the Group and Society financial statements. Based on our professional judgement, we determined materiality for the financial statements as whole to be £400,000. The principal determinant in this assessment was the group's and Society's fund for future appropriations, which we consider to be the most relevant benchmark, as it reflects the underlying interests of the Members of the Group. Our materiality represents 2% of this number.

We have agreed with the Audit Committee that we shall report to them any misstatements in excess of £4,000 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit

The audit of the Group financial statements includes the audit of the Society and its subsidiary, Financial Advice Network Limited. The audit of both the Society and subsidiary have been performed by the same engagement team. The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

Effectiveness of the audit on the identification of possible fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Society. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions, our work around misappropriation of assets and fraudulent reporting has been completed during the audit and there is nothing to report. The approach to the valuation of technical provisions has been addressed within the areas of risk identified on page 54.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Friendly Societies Act 1992
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Society's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and Society and its environment obtained in the
course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities of directors
As explained more fully in the directors' responsibilities statement, set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other matters which we are required to address

We, Moore Stephens LLP (London), were appointed by the Audit Committee on 13 November 2017. Previously Moore Stephens (Bath) were appointed by the Audit Committee on 2 September 2010. Both Moore Stephens LLP (London) and Moore Stephens (Bath) are part of the same network. The period of total uninterrupted engagement including previous renewals and reappointments of the firm within the network is 8 years.

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

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

Alexander Barnes

Alexander Barnes
Senior Statutory Auditor

For and on behalf of
Moore Stephens LLP
Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

Society Statement Of Comprehensive Income for the year ended 31 December 2017

INCOME	Notes	2017 £'000	2017 £'000	Restated 2016 £'000	Restated 2016 £'000
Technical Account: Long Term Business					
Earned Premiums					
Gross Premiums written	6	14,173		10,396	
Outward Reinsurance Premiums		(3)		(5)	
Net Premiums			14,170		10,391
Investment Income					
Land and Buildings		245		239	
Other Investments		1,229		1,266	
Gains/Losses on the realisation of Investments		644		877	
			2,118		2,382
Unrealised gains/losses on Investments			6,429		6,144
Total technical income			**22,717**		**18,917**
EXPENDITURE					
Claims incurred					
Claims Paid - Gross amount		9,088		8,481	
Change in the provision for claims		98		23	
			9,186		8,504
Changes in other technical provisions					
Technical provisions transfer	13		(121)		1,179
Other expenditure					
Net operating expenses					
Other operating expenses	7	9,214		6,943	
Investment Expenses		41		41	
			9,255		6,984
Total technical expenditure			**18,320**		**16,667**
Excess of income over expenditure			4,397		2,250
Transfer: Fund for Future Appropriations			(4,397)		(2,250)
Balance on technical account - long term business			-		-
Statement of other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/(loss) on pension scheme	17		112		(548)
Transfer: Fund for Future Appropriations	13		(112)		548
Total comprehensive income for the year			-		-

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 2017 or 2016 other than those shown in the accounts.

Group Statement of Comprehensive Income for year ended 31 December 2017

INCOME	Notes	2017 £'000	2017 £'000	Restated 2016 £'000	Restated 2016 £'000
Technical Account: Long Term Business					
Earned Premiums					
Gross Premiums written	6	14,173		10,396	
Outward Reinsurance premiums		(3)		(5)	
Net Premiums			14,170		10,391
Investment Income					
Land and Buildings		245		239	
Other Investments		1,173		1,256	
Gains/Losses on the realisation of Investments		644		877	
			2,062		2,372
Unrealised gains/losses on Investments			6,429		6,144
Other technical income	2		299		343
Total technical income			**22,960**		**19,250**
EXPENDITURE					
Claims incurred					
Claims Paid - Gross amount		9,088		8,481	
Change in the provision for claims		98		23	
			9,186		8,504
Changes in other technical provisions					
Technical provisions transfer	13		(121)		1,179
Other expenditure					
Net operating expenses					
Other operating expenses	7	9,214		6,818	
Investment Expenses		41		41	
			9,255		6,859
Other technical charges	2		199		418
Total technical expenditure			18,519		16,960
Excess of income over expenditure			4,441		2,290
Transfer: Fund for Future Appropriations	13		(4,441)		(2,290)
Balance on technical account - long term business			-		-
Statement of other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/(loss) on pension scheme	17		112		(548)
Transfer: Fund for Future Appropriations	13		(112)		548
Total Comprehensive income for the year			-		-

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 2017 or 2016 other than those shown in the accounts.

Society Statement of Financial Position as at 31 December 2017

	Notes	2017 £'000	2017 £'000	Restated 2016 £'000	Restated 2016 £'000
ASSETS					
Investments					
Land and buildings	11		1,803		1,800
Investment in Subsidiary	11		500		500
Investment In Associate	11		800		-
Other Financial Investments	11	41,616		41,697	
Assets Held to Cover Investment Liabilities	11	35,715		31,816	
			77,331		73,513
			80,434		75,813
Debtors: amounts due within one year					
Debtors arising out of direct insurance operations with members		23		-	
Other debtors		207		172	
Debtors: amounts receivable after more than one year					
Loan to Associate	12	205		-	
			435		172
Other Assets					
Tangible assets	14	139		137	
Intangible assets	14	255		207	
Cash at bank and in hand		630		791	
			1,024		1,135
Prepayments and accrued income					
Other prepayments and accrued income		330		372	
Total prepayments and accrued income			330		372
Total assets			82,223		77,492
LIABILITIES					
Fund for Future appropriations	13	24,841		20,332	
			24,841		20,332
Technical Provisions					
Long Term Business Provision	13	19,967		23,766	
Technical Provision for Linked Liabilities - Investment Contracts		35,715		31,816	
Claims outstanding		342		243	
			56,024		55,825
Provision for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		57		62	
Other creditors, including taxation and social security		333		399	
			390		461
Accruals and deferred income			696		432
Pension scheme liability	17		272		442
Total liabilities			82,223		77,492

The attached notes form part of these accounts

Approved by the Board on

J. Hindle
Chairman

A M O'Dea
Chief Executive Officer

Group Statement of Financial Position as at 31 December 2017

	Notes	2017 £'000	2017 £'000	Restated 2016 £'000	Restated 2016 £'000
ASSETS					
Investments					
Land and buildings	11		1,803		1,800
Investment In Associate	11		800		
Other Financial Investments	11	41,616		41,697	
Assets Held to Cover Investment Liabilities	11	35,715		31,816	
			77,331		73,513
			79,934		75,313
Debtors: amounts receivable within one year.					
Debtors arising out of direct insurance operations with members		23		-	
Other Debtors		267		191	
Debtors: Amounts receivable after more than one year.					
Loan to Associate	12	205		-	
			495		191
Other Assets					
Tangible assets	14	139		137	
Intangible assets	14	330		312	
Cash at bank and in hand		1,144		1,099	
			1,613		1,548
Prepayments and accrued income					
Other prepayments and accrued income		343		416	
Total prepayments and accrued income			343		416
Total assets			**82,385**		**77,468**
LIABILITIES					
Fund for Future appropriations	13	24,825		20,271	
			24,825		20,271
Technical Provisions					
Long Term Technical provisions	13	19,967		23,766	
Technical Provision for Linked Liabilities - Investment Contracts		35,715		31,816	
Claims outstanding		342		243	
			56,024		55,825
Provision for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		57		62	
Other creditors, including taxation and social security		511	568	436	498
Accruals and deferred income			696		432
Pension scheme liability	17		272		442
Total liabilities			**82,385**		**77,468**

The attached notes form part of these accounts

Approved by the Board on

J Hindle
Chairman

A M O'Dea
Chief Executive Officer

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

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

2 Significant Accounting Policies

Basis of Preparation

The financial statements of The Shepherds Friendly Society Limited ("the Society") have been prepared in accordance with Financial Reporting Standard (FRS) 102 and FRS 103 as issued by the Financial Reporting Council and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations')
The Society meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow and remuneration of key management personnel.
The accounts have been prepared on a going concern basis as confirmed in the Director's report.

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

Following the introduction of Solvency II regulatory reporting requirements applicable from 1 January 2016, the Society changed its accounting policy for the basis of accounting for technical provisions for the year ended 31 December 2016.
A consistent accounting policy has been applied in the year ending 31 December 2017.

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.

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

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 Statement of Comprehensive Income.

Accounting For Associates

Associates are accounted for in accordance with FRS 102 and under the equity accounting method in the Group Accounts.

Accounting for Earned Premiums

Insurance contracts

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

Investment Contracts

Premiums and claims relating to investment contracts are not recognised in the Technical Account but are recorded as contributions to and deductions from the investment contract liabilities recorded in the Statement of Financial Position.

Accounting for Investment Income

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

Accounting for Claims and Benefits

Insurance Contracts

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

Death claims and claims for sickness are accounted for when 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.

Investment contracts

Gross claims on non-participating investment contracts are deducted from Investment contract liabilities and are accounted for as deductions from Investments in the Statement of Financial Position.

Contract Classification

The Society has carried out an analysis of its business to categorise its business as either insurance contracts (where the contracts meet the definition below) or as investment contracts.

A contract that exposes the Society to financial risk without significant insurance risk is not an insurance contract - financial risk comprises of market risks (e.g. investment returns, index prices, interest rates etc).

Neither lapse, persistency, nor expense risk is insurance risk as these do not impact the policy holder (so there is no risk transfer). The Society has assessed significant risk to enable its categorisation.

The Society has carried out its assessment by considering homogenous product classes rather than contract by contract as each class has common product features including levels of insurance risk.

The product range includes conventional and holloway with-profits business, and other non-profit business.

Life product types include endowments, whole of life and term assurance as well as personal pension products

Premiums may be regular or single.

This analysis has been carried out by assessing contracts at inception as required under FRS 102.

Accounting for Long Term Insurance Liabilities

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

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:

- Equipment is depreciated between two and four years.
- Intangible Website Domain Assets are amortised over ten years.
- Other Intangible computer software is amortised over between two and four years.
- Property Improvements 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 the Statement of Comprehensive Income 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.

Valuation of Financial Investments

Upon initial recognition, financial investments are classified as either financial assets at fair value through the Statement of Comprehensive Income or loans and receivables.

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.

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

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

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.

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 Statement of Financial Position date. All differences are recognised in the technical account.

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

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

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 closed to member contributions on 8 January 2018. The pension scheme surplus or liability recognised in the Statement of Financial Position is the value of the scheme's assets less the present value of the scheme's liabilities. The 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 for Future Appropriations represents the excess of assets over and above the long-term insurance contract liabilities and other liabilities. It represents amounts that have yet to be formally declared as bonuses for the participating contract policyholders together with the free assets of the Society. Any profit or loss for the year arising through the Statement of Comprehensive Income is transferred to or from the unallocated divisible surplus.

3 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.

Investment Property
The investment property valuation contains a number of market standard assumptions upon which an independent, professionally qualified valuer has based their valuation of the Group's property.

Technical provisions
The valuation of participating contract liabilities is based upon assumptions reflecting the best estimate at the time.

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

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

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

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

Pensions

Pension plan liabilities are based on appropriate valuation assumptions.
These assumptions include an appropriate discount rate, the levels of salary escalation, price inflation and mortality rates. Further details are contained in note 17 to these financial statements.

4 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 on page 9

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

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

The capital requirement in the quarterly Solvency II return is the statutory capital requirement based on EU directives.
Management intends to maintain capital in excess of the PRA's total requirements and to hold an appropriate additional margin over this to absorb changes in both capital and capital requirements.
The 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 Society as determined for UK regulatory purposes.

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.

	2017	**2016**
	£000s	**£000s**
Fund for Future Appropriations	24,841	20,332
Regulatory Solvency Adjustments	(646)	(61)
Total available capital resources	**24,195**	**20,271**

Measurement and Monitoring of Capital

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

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	Asset share plus cost of guarantee
Unitised With-profits pension	Reserves equal to the value of the units
With-profits Bond (series I and II)	Asset share plus cost of guarantee
Over 50s and Other non-profit life business	Gross premium method of valuation
Individual Saving Accounts (ISAs), including Junior ISAs	Asset share plus cost of guarantee
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 equal to asset shares plus cost of guarantees and sickness benefit valuedusing 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 unadjusted risk-free rates of return specified by EIOPA.

Expenses

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

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

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

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

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

Mortality

Mortality rates are set by reference to standard actuarial tables by class of business. Mortality is assumed to follow rates as set out in the following table.

	2017	**2016**
Life Business excl. Over 50s	65%	65%
Over 50s	200%	200%
Income Protection	40%	40%

Morbidity

The following table sets out the sickness assumptions for each class of Income Protection business at the end of 2017 and those used at the end of 2016. Rates are set by reference to 100% inceptions and recoveries of CMIR12 tables.

	2017	**2016**
Adult Holloway	25%	25%
Young Holloway	10%	10%
Non-profit Income Protection	35%	35%

Persistency

Realistic lapse rates based on actual experience for each product.

Options and Guarantees

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

Analysis of Change

There has been an increase in the available capital resources from 31 December 2016 to 31 December 2017. 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 2016		**20,271**
Policy cashflows	372	
Changes to methodology	(1,318)	
Changes to lapse assumptions	(2,764)	
Other assumption changes	(612)	
Investment gains	6,735	
Investment return credited to asset shares	(7,093)	
New business	7,143	
Change in risk margin	2,155	
Change in pension scheme	170	
Change in admissibility	(572)	
Other	(292)	
Capital resources 31 December 2017		**24,195**

5 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 continuously 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 compete in the open market to win business and in so doing faces a range of risks including the insurance risks described below plus others such as over paying to generate sales and the risk associated with mis-sold or misrepresented products. Accepting these risks is a result of being open to new business. Low new business levels may result in an inability to cover the costs of writing that new business. The 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 Technical provisions and the changes over the year.

Financial risks (market risk, credit risk, liquidity risk)

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

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

Liquidity Risk

Liquidity Risk is that of not having sufficient liquid resources to meet changing market conditions and being unable to meet obligations as they fall due, or being able to secure them only at excessive cost.
Liquidity is required to honour all cashflow commitments, both on and off the Statement of Financial Position, and these are generally met through cashflows supplemented by assets readily convertible to cash.
The management of liquidity is consistent with the economic capital, regulatory and operational needs across the Society. The Board is responsible for defining the risk appetite and monitoring liquidity risk exposure.
Liquidity risk oversight is performed by the Investment Committee. The Investment Committee sets and monitors appropriate asset ranges bearing in mind the liquidity needs for each fund.
Liquidity risk is the risk that the Society is unable to meet its own commitments to pay its liabilities when they become due.

The assets held in the insurance funds at 31 December 2017 split by duration are as follows:

Assets as at 31 December 2017	**No Maturity £'000**	**1 - 5 years £'000**	**5 - 10 years £'000**	**Over 10 years £'000**	**Total £'000**
Land & Buildings	1,803	-	-	-	1,803
Equity	27,354	-	-	-	27,354
Fixed Interest	2,214	5,158	4,887	1,756	14,015
Assets held to cover Linked Liabilities	35,715	-	-	-	35,715
Cash & Other	247	-	-	-	247
Total	**67,333**	**5,158**	**4,887**	**1,756**	**79,134**

Assets as at 31 December 2016	**No Maturity £'000**	**1 - 5 years £'000**	**5 - 10 years £'000**	**Over 10 years £'000**	**Total £'000**
Land & Buildings	1,800	-	-	-	1,800
Equity	23,891	-	-	-	23,891
Fixed Interest	3,670	4,065	6,492	2,339	16,566
Assets held to cover Linked Liabilities	31,816	-	-	-	31,816
Cash & Other	1,240	-	-	-	1,240
Total	**62,417**	**4,065**	**6,492**	**2,339**	**75,313**

The Society's Capital Statement and Analysis of Change in Available Capital and Profit are noted at note 4: Capital Management.

Market Risk

Market risk is the risk that as a result of market movements the Society may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Market risk is the risk of losses due to changes in the investment assets or the income from those assets.
Sources of general market risk include movements in interest rates, equity pricing and property prices.

During 2017, the investment strategy was kept under regular review by the Investment Committee. The Investment Committee also monitored all investment activity on behalf of the Board.

(a) Equity Price Risk

Holdings in equities are by their nature subject to market movement. In order to mitigate this risk, the Society employs LGT Vestra LLP as an external investment manager. In addition, the acceptable level of equity holdings for the Society's With-profit funds is governed by the Principles and Practices of Financial management (PPFM) for each fund.

(b) Property Price Risk

As for equity, property holdings are by their nature subject to market movement. In order to mitigate this risk, the Society employs Matthews & Goodman LLP, Chartered Surveyors, to manage its investment property.

(c) Interest Rate Risk

Interest rate risk exists for all assets and liabilities which are sensitive to changes in the term structure of interest rates or interest rate volatility. Due to the nature of the Society's products, the long term business funds may be impacted by these interest rate movements. Asset matching is performed to broadly match expected liability cash flows on a realistic basis in each fund. However, this can never be exact due to the uncertainties involved.

(d) Exchange Rate Risk

The Society has a number of directly held equity investments in foreign currencies in the With-profit fund which present a minor exchange rate risk. All other investments are held in sterling.
Sensitivity to exchange rate risk is immaterial to the Society and the Group.
The Society's holdings shown by foreign currency are listed below:

Equity Market Values by Foreign Currency	2017 £'000	2016 £'000
US Dollar	3,929	3,581
Euro	-	147
Swiss Franc	-	259
Total	**3,929**	**3,987**

(e) Credit Risk

1) Credit Spread Risk
Credit spread risk results from the sensitivity of the value of the assets and liabilities to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.

The Society's investments are analysed by credit rating below:

Investment Type with Credit Rating	2017 £'000	2016 £'000
British Government Stock		
AA	1,641	1,797
	1,641	**1,797**
Corporate Bond		
A	1,801	2,561
AA	1,063	1,398
AAA	-	100
BBB	8,639	8,475
Below BBB	683	2,237
Not rated	444	280
	12,630	**15,051**
	14,271	**16,848**

The terms of the Society's investment mandates require an appropriate spread of holdings within specified parameters.
There are also limits on the maximum exposure to any single counterparty and on the level of exposure to lower rated bonds
This results in a relatively modest exposure to lower rated and hence more risky assets within the investment funds.
The Credit Spread Risk of the Society's other assets has been assessed and is not considered to be at a level of materiality requiring disclosure.

2) Counterparty Default Risk

Counterparty default risk is the risk of loss incurred by the Society if a counterparty fails to perform its contractual obligations, including failing to perform them in a timely manner.
Credit risk is the risk of loss due to default by debtors and the Society's counterparties in meeting their financial obligations. The Society's exposures are mostly in respect of trade debtors and the loan to Associate of £205k 2017 (£0:2016).
The cash deposits are spread between LGT Vestra Wealth management and a number of high street banks.
The Society has a low level of exposure to reinsurers and this is declining with the maturity of the portfolios. There are not therefore any specific actions envisaged to manage reinsurer default risk.
Sensitivity to counterparty default risk is immaterial to the Society and the Group.

During 2017 the Investment Committee oversaw investment activity, monitored investment managers and ensured that the investment policy and asset allocations were adhered to.
The policy and investment strategy are reviewed and approved by the Board on an annual basis.
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 Chief Actuary being asked to review the Investment Policy. Investment policy statements are used to assist in the portfolio management with investment managers.

Financial Risks: Sensitivity of the Society's results to changes in key assumptions.

Variable	Change in Variable %	2017 Change in Available Capital and Profit £000s	2016 Change in Available Capital and Profit £000s
Change in mortality	+10%	(1,324)	(635)
Change in morbidity (%CMIR12)	+25% inceptions and -20% recoveries	(7,726)	(6,462)
Change in expenses	+10%	(3,056)	(3,017)
Change in lapses	10%	(3,174)	(2,068)
Change in lapses	-10%	6,885	4,108
Change in fixed interest yields	EIOPA interest rate up	(3,563)	(3,403)
Change in fixed interest yields	EIPOPA interest rate down	3,152	1,220
Fall in equity values	-10%	(1,104)	(1,136)

Subsidiary Risk

The Society has a subsidiary - Financial Advice Network Limited (the "Network") which acts as a distributor of some of the Society's insurance contracts. At the end of 2017 the Network was 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.

6 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 the Group.

Long Term Life Business	**2017 £'000**	**2017 £'000**	**Restated 2016 £'000**	**Restated 2016 £'000**
Non Profit Policies				
Periodic Premiums	3,983		2,469	
Reinsurance	(3)		(5)	
		3,980		2,464
With Profit Polices				
Periodic Premiums	5,436		4,208	
Reinsurance	-		-	
		5,436		4,208
Single Premiums	4,754		3,719	
		4,754		3,719
		14,170		10,391

Comprising:	**2017 £'000**	**2016 £'000**
Premiums from participating contracts	6,534	5,204
Premiums from non- participating contracts	7,636	5,187
	14,170	10,391

Participating contracts are insurance contracts as defined by FRS 103.
Non participating contracts are contracts classified as contracts with discretionary participation features (Adult ISA and Junior ISA With- profits products) under FRS 103.

Annualised new business written: Society and Group	**2017 £'000**	**Restated 2016 £'000**
Single Premium	475	372
Regular Premium	5,778	3,241
	6,253	3,613

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.

Premiums of £392k in 2017 (£354k: 2016) relating to investment contracts are not recognised in the Technical Account but recorded as contributions to the investment contract liabilities recorded in the Statement of Financial Position.

7 Society and Group Net Operating Expenses

	Society 2017 £'000	**Group 2017 £'000**	**Society 2016 £'000**	**Group 2016 £'000**
Acquisition costs	6,879	6,879	5,171	5,178
Administration expenses	2,335	2,335	1,772	1,640
	9,214	9,214	6,943	6,818

Also included in the operating expenses are:

	Society 2017 £'000	**Group 2017 £'000**	**Society 2016 £'000**	**Group 2016 £'000**
Auditor's remuneration for:				
Audit services	53	59	47	52
	53	59	47	52

8 Staff Costs

The average monthly number of persons employed by the Society in the year was as follows:	**2017**	**2016** Restated
Board Members	8	8
Staff - Acquisition	24	24
Staff - Administration	17	13
	49	45

The original basis for staff allocation in 2016 saw Acquisition staff being employed within either the Sales or Marketing Departments. In 2017, staff are allocated to Acquisition or Administration on a consistent basis with the allocation of Net Operating Expenses in Note 6: 58% allocated to Acquisition and 42% to Administration. 2016 has therefore been restated on a consistent basis to 2017: the percentages for 2016 were originally allocated as 65% to Acquisition and 35% to Administration.

The aggregate staff payroll costs were as follows:

	2017 £'000	2016 £'000
Wages and salaries	2,053	1,822
Social security costs	217	173
Pension costs	279	273
	2,549	2,268

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 Society's 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.

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 on the basis that foreseeable recovery cannot be determined with reasonable certainty.

	Group 2017 £	Group 2016 £	Society 2017 £	Society 2016 £
Corporation Tax				
Policyholdertax charge/ (credit)	67	45	-	-
Deferred Tax				
Timing differences, origination and reversal	-	-	-	-
Total tax charge/(credit)	67	45	-	-

The tax charge for the group is £67 (2016: £45).

The applicable UK corporation tax rate is 19.25% for the subsidiaries (2016: 20%), due to the reduction of the UK corporation tax rate from 20% to 19% which was effective from 1 April 2017.

The Finance bill 2016 substantively enacted on 6 September 2016 included legislation reducing the UK corporate rate to 17% from 1 April 2020.

The Society primarily writes tax exempt business, with a small amount of taxable business. The UK rate of income tax applicable to this business is 20% (2016: 20%).

There is no deferred tax in the Group.

As at 31 December 2017, the Group did not hold any provisions for uncertain tax positions.

Reconciliation of Current Year Tax Charge

	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Profit/ (loss) on ordinary activities	4,553	1,742	4,509	1,702
Result for the Year	4,553	1,742	4,509	1,702
Tax on result	910	348	902	340
Factors affecting tax charge:				
Accounting profit not subject to policyholder tax	(901)	(340)	(902)	(340)
Accelerated capital allowances	3	21	-	-
Movement in unprovided deferred tax asset	(12)	(29)	-	-
Permanent differences	-	-	-	-
Current corporation tax charge for the year	-	-	-	-

There was no current tax charge in either 2017 or 2016 due to the losses the Society is carrying forward. At 31 December 2017, these losses stood at £3,066,401 (2016: £2,528,857) in respect of excess management expenses.
These losses are available to be used against future profits of the Society. Arising from these losses, the Society has an unrecognised deferred tax asset on deductible expenses carried forward of £613,280 (2016: £505,771)
It is considered unlikely that these losses will be used and therefore it continues not to be recognised.

11 Investments

Land and buildings (Society & Group)*

	Cost 2017 £'000	Market Valuation 2017 £'000	Cost 2016 £'000	Market Valuation 2016 £'000
Investment Property	1,597	1,803	1,597	1,800
	1,597	**1,803**	**1,597**	**1,800**

*Property is fully valued at least once every five years on an open market, existing use basis, measured at fair value under FRS 102 requirements. In between the full valuations a 'desktop' valuation is undertaken.
A desktop valuation was performed in 2017 by Matthews and Goodman, Chartered Surveyors.

Other financial investments (Society & Group)	**Cost**	**Market Valuation**	**Restated Cost**	**Restated Market Valuation**
	2017	**2017**	**2016**	**2016**
	£'000	£'000	£'000	£'000
Assets held to cover Investment Liabilities	22,575	35,715	22,785	31,816
UK and overseas listed shares	20,676	23,913	18,459	19,944
UK and overseas listed fixed interest securities	13,632	14,262	17,477	17,807
UK and overseas listed Property Investment Fund	3,016	3,441	3,298	3,946
	59,899	**77,331**	**62,019**	**73,513**

Fair Value measurement

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

The classification of the Society's key financial assets has been assessed by management in conjunction with investment managers and is set out below:

	Society & Group 2017			**Society & Group 2016**		
Financial Assets	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Shares and other variable yield securities and units in unit trusts	13,547	13,807	-	11,872	12,018	-
Debt securities and other fixed income	14,012	-	250	17,557	-	250
Assets held to cover linked liabilities	35,715	-	-	31,816	-	-
Land & buildings	-	-	1,803	-	-	1,800
	63,274	**13,807**	**2,053**	**61,245**	**12,018**	**2,050**

Investment in subsidiary

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

	Shares in subsidiary £'000	**Loan to subsidiary £'000**
As at 31 December 2017	500	-

Investment In Associate

The Society owns 24% of the ordinary shares of Life's Great Limited.
316 C Ordinary shares of £1 each were acquired on 4 December 2017 for a consideration of £800,000 (£2,531.65 per share)

	Shares in Associate £'000	**Loan to Associate £'000**
As at 31 December 2017	800	205

12 Debtors: Amounts receivable after more than one year.

	2017 £'000	**2016 £'000**
Loan to Associate	205	-
	205	-

A loan of £200K was made to Life's Great Group Limited on 24 July 2017 repayable on or before 23 July 2022.
The Loan to Associate as at 31 December 2017 was £205K including accrued interest.
Life's Great Group Limited became an associate company of Shepherds Friendly Society Limited on 4 December 2017.
Further loans provided by the Society to the Life's Great Group Limited of £300k on 29 August and £150k on 30 October 2017 were repaid to the Society on 7 December 2017.

13 Movements in Provisions and Appropriations

13.1 Prior Year Adjustment

The Society has carried out an analysis of its business to categorise its business as either insurance contracts or as investment contracts as defined in FRS 103. As a result of this analysis, the Society has changed it accounting policy for Earned Premiums to classify certain contracts as investment contracts (Child Trust Fund & Junior Unit-Linked ISA). These were previously accounted for on a basis consistent with insurance contracts.
The effect of this prior year adjustment is to reduce the level of gross premiums written and also the claims paid and technical provisions transfer recognised in the Statement of Comprehensive Income.
This prior year adjustment does not affect the net result for the year.

The prior year impact is outlined in the tables below:

Fund for Future appropriations (Society)	**2017 £'000**	**2017 £'000**	**Restated 2016 £'000**	**Restated 2016 £'000**
Balance at 1 January		20,332		18,630
Investment Contract Restatement Adjustment:				
Gross premiums written			354	
Claims paid - Gross amount			(107)	
Technical Provision transfer			(247)	
				-
Transfer from statement of comprehensive income	4,397		2,250	
Transfer from statement of other comprehensive income	112		(548)	
		4,509		1,702
Balance at 31 December (Society)		**24,841**		**20,332**

Fund for future appropriations (Group)	**2017 £'000**	**2017 £'000**	**Restated 2016 £'000**	**Restated 2016 £'000**
Balance at 1 January		20,271		18,530
Investment Contract Restatement Adjustment:				
Gross premiums written	-		354	
Claims paid - Gross amount	-		(107)	
Technical Provision transfer	-		(247)	
		-		-
Transfer from statement of comprehensive income	4,441		2,290	
Transfer from statement of other comprehensive income	112		(548)	
		4,553		1,742
Other		1		(1)
Balance at 31 December (Group)		**24,825**		**20,271**

Technical provisions (Society & Group)	**2017 £'000**	**2017 £'000**	**Restated 2016 £'000**	**Restated 2016 £'000**
Balance at 1 January		55,582		54,156
Investment contract restatement	-		247	
Investment contract movement	221		-	
Transfer from income and expenditure account	(121)		1,179	
		100		1,426
Balance at 31 December (Society & Group)		**55,682**		**55,582**

	2017 £'000	**2016 £'000**
Balance at 31 December comprises of:		
Long Term Business Provision	19,967	23,766
Technical Provision for Linked Liabilities - Investment Contracts	35,715	31,816
Balance at 31 December (Society & Group)	**55,682**	**55,582**

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

13.2 Fund for Future Appropriations

Fund for Future Appropriations (Society)	2017 £'000	2017 £'000	Restated 2016 £'000	Restated 2016 £'000
Balance at 1 January		20,332		18,630
Transfer from statement of comprehensive income	4,397		2,250	
Transfer from statement of other comprehensive income	112		(548)	
		4,509		1,702
Balance at 31 December (Society)		24,841		20,332

Fund for Future Appropriations (Group)	2017 £'000	2017 £'000	Restated 2016 £'000	Restated 2016 £'000
Balance at 1 January		20,271		18,530
Transfer from/ to income and expenditure account	4,441		2,290	
Transfer from statement of other comprehensive income	112		(548)	
		4,553		1,742
Other		1		(1)
Balance at 31 December (Group)		24,825		20,271

Technical provisions (Society & Group)	2017 £'000	2017 £'000	Restated 2016 £'000	Restated 2016 £'000
Balance at 1 January		55,582		54,156
Investment Contract Restatement	-		247	
Investment contract movement	221		-	
Transfer from/to income and expenditure account	(121)		1,179	
		100		1,426
Balance at 31 December (Society & Group)		55,682		55,582

	2017 £'000	Restated 2016 £'000
Balance at 31 December comprises of:		
Long Term Business Provision	19,967	23,766
Technical Provision for Linked Liabilities - Investment Contracts	35,715	31,816
Balance at 31 December (Society & Group)	**55,682**	**55,582**

14 Tangible and Intangible assets

Tangible assets	Society Property Improvement £'000	Society Equipment and Furniture £'000	Society Total £'000	Group Total £'000
Cost				
At 1 January 2017	91	194	285	297
Additions	-	29	29	29
Disposals	-	(16)	(16)	(16)
At 31 December 2017	91	207	298	310
Depreciation				
At 1 January 2017	10	138	148	160
Provided in year	8	19	27	27
Disposals	-	(16)	(16)	(16)
At 31 December 2017	18	141	159	171
Net book value				
31 December 2017	73	66	139	139
31 December 2016	81	56	137	137

Intangible assets	Society Software £'000	Society Total £'000	Group Total £'000
Cost			
At 1 January 2017	734	734	1,001
Additions	216	216	216
Disposals	-	-	-
At 31 December 2017	950	950	1,217
Depreciation			
At 1 January 2017	527	527	688
Provided in year	168	168	199
Disposals	-	-	-
At 31 December 2017	695	695	887
Net book value			
At 31 December 2017	255	255	330
At 31 December 2016	207	207	313

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 Chief Actuary & 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 2017.

2. Neither Mr Critchlow, his wife or children had any financial interest in any transaction with the Society at any time during 2017, other than as an employee of OAC plc.

3. The only remuneration was the fee for professional services paid to OAC plc. for the services provided by Mr Critchlow and his support team. The amount payable in this respect amounted to £312,450 inclusive of VAT (2016: £296,650). 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:	2017 £'000	2016 £'000
Annual commitments under rent agreements and operating leases which expire:		
Amounts falling due < 1 year	60	70
Amounts falling due 2 - 5 years	238	186
Amounts falling due 5 years +	224	345
	522	**601**

Other operating expenses in the Statement of Comprehensive Income includes opertaing lease expenses of £ 87,713 for 2017 (£ 91,587: 2016)

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. From 8 January 2018, the scheme closed to future accruals. The most recent formal actuarial valuation was carried out as at 5 April 2015. The results have been updated to 31 December 2017 by a qualified independent actuary. The assumptions used were as follows:

Final Assumptions

Description	**Year ending 31 December 2017**	**Year ending 31 December 2016**
Discount Rate	2.60% pa	2.80% pa
Retail price inflation	3.10% pa	3.20% pa
Consumer price inflation	1.90% pa	2.20% pa
Salary Increases	1.90% pa	2.00% pa
Rate of increases of pensions in payment		
-CPI max 3%	1.70% 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	1.90% pa	2.20% pa

Demographic assumptions	**Year ending 31 December 2017**	**Year ending 31 December 2016**
Description		
Mortality (Pre retirement)	As per post retirement	As per post retirement
Mortality (Post retirement)	S2PA CMI_2016_M/F [1.00%] (yob)	S2PA CMI_2015_M/F [1.00%] (yob)

Life Expectations	**Year ending 31 December 2017**		**Year ending 31 December 2016**	
	Male	**Female**	**Male**	**Female**
Life expectancy for an individual aged 65 in 2017	21.9 years	23.7 years	22.0 years	24.0 years
Life expectancy at age 65 for an individual aged 45 in 2017	23.0 years	25.0 years	23.3 years	25.5 years

Assets

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

Asset Class	Year Ending 31 December 2017 Market Value £'000	Year Ending 31 December 2017 % of total Scheme assets	Year Ending 31 December 2016 Market Value £'000	Year Ending 31 December 2016 % of total Scheme assets
Equities	-	0%	-	0%
Bonds	1,087	27%	1,799	45%
Gilts	819	21%	-	0%
Property	-	0%	-	0%
Cash	109	3%	19	0%
Diversified growth Funds	1,941	49%	2,211	55%
Annuities	-	0%	-	0%
Total	**3,956**	**100%**	**4,029**	**100%**
Actual return on assets over period is	**188**		**241**	

Reconciliation to the Statement of Financial Position

Description	Year ending 31 December 2017 £'000	Year ending 31 December 2016 £'000
Market Value of assets	3,956	4,029
Present Value of liabilities	4,228	4,471
Surplus/(Deficit) in the scheme	(272)	(442)
Irrecoverable Surplus	-	-
Pension asset/(liability) recognised in the Statement of Financial Position before allowance for deferred tax	**(272)**	**(442)**

Reconciliation of Scheme Assets and Defined Benefit Obligation

Description	Assets £'000	DBO £'000	Total £'000
As at 31 December 2016	4,029	(4,471)	(442)
Benefits paid	(364)	364	-
Employer contributions	96	-	96
Member contributions	7	(7)	-
Current service cost	-	(26)	(26)
Administration expenses	-	-	-
Past Service cost	-	-	-
Settlements	-	-	-
Business combination/ bulk transfers	-	-	-
Interest income/(cost)	109	(121)	(12)
Remeasurement gains/(losses)			
-Actuarial gains/(losses)	-	33	33
-Return on plan assets excluding interest income	79	-	79
As at 31 December 2017	**3,956**	**(4,228)**	**(272)**

Analysis of Amounts Charged(Credited) to Statement of Comprehensive income.

	Year ending 31 December 2017 £'000	Year ending 31 December 2016 £'000
Service Cost:		
Current service cost:	26	23
Administration expenses	-	-
Past service cost	-	48
(Gain)/Loss on business combinations	-	-
(Gain)/Loss on settlements	-	-
Total Service Cost	**26**	**71**
Net Interest	12	(4)
Amount Charged/(Credited) to Statement of Comprehensive Income.	**38**	**67**

Amounts Recognised In Other Comprehensive Income

	Year ending 31 December 2017 £'000	Year ending 31 December 2016 £'000
Remeasurement of the Net Defined Benefit Liability (asset)		
Actuarial gains/(losses) on liabilities	33	(637)
Return on assets excluding amount included in net interest	79	89
Limit on recognition of assets excluding amounts included in net interest	-	-
Amount recognised in Other Comprehensive Income	**112**	**(548)**

Future Funding Obligation

The last actuarial valuation of the Scheme was performed by the previous Actuary for the trustees as at 5 April 2015. The Society agreed to pay annual contributions of 21.5% of pensionable salaries and £75,000 pa until 31 October 2018. The scheme closed to future accrual on 8 January 2018.
The Society expects to pay £62,500 to the Scheme during the accounting year beginning 1 January 2018.

18 Post Balance Sheet Event

A further loan of £1,000,000 was made to an associate company, Life's Great Group Limited on 7 February 2018 repayable within 5 years.
At 7 February 2018 the total loan to the Associate was £1,200,000 plus interest accrued of £5,000: £1,205,000 in total.

GLOSSARY	
Corporate Governance	An internal system encompassing processes, policies and people by directing management activities with objectivity, accountability and integrity.
FRS102 FRS103	A Financial Reporting Standards issued by the Accounting Standards Board.
Fund for Future Appropriation, FFA	The Statement of Financial Position item required by Schedule 3 to the Regulations to comprise all the funds the allocation of which to policyholders has not been determined by the end of the reporting period.
Technical provisions	An actuarial calculation of the amounts due to policy holders. It is also known as technical provisions.
ORSA Own Risk and Solvency Assessment	The ORSA is the Society's Own Risk and Solvency Assessment. It is a forward looking assessment of the Society's solvency position taking into account the specific risks to which it is exposed.
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 adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders.
Smoothing	The principal of reducing bonuses in good years to prevent lower bonuses in poor years.
Valuation methods	Note 4 of the Report and Accounts refers to the assumption that the actuary uses in calculating the Technical provisions. The references are to standard actuarial tables for calculating death and sickness rates.
With-Profits Fund	All With-Profit members/policyholders participate in the profit and losses of the fund