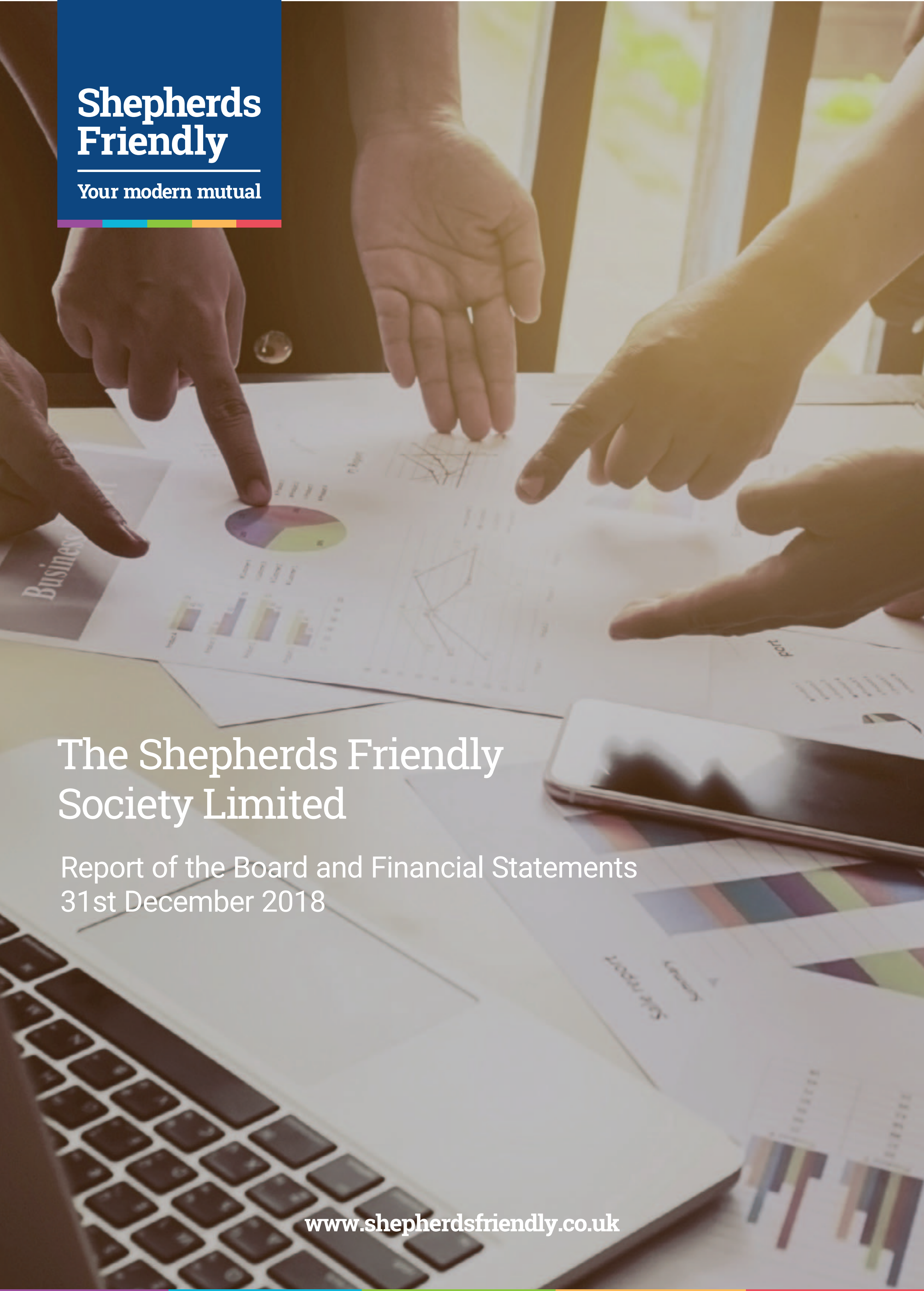
Shepherds Friendly

Your modern mutual



The Shepherds Friendly Society Limited

Report of the Board and Financial Statements 31st December 2018

www.shepherdsfriendly.co.uk

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The Shepherds Friendly Society Limited

Our Directors and Advisers

Non-Executive Directors

Joanne Hindle - Chairman

Nemone Wynn-Evans - Senior Independent Director

Geoffrey Ross

Simon Pashby

Roger Turner

Cameron Mills (appointed 1 January 2019)

Executive Directors

Ann-Marie O'Dea - Chief Executive

Kim Harris - Executive 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

BDO LLP

150 Aldergate Street

London EC1A 4AB

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

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

STRATEGIC REPORT

Chairman's Report

Continued growth in uncertain times

In my 2017 Report, I said we could achieve continual success by focussing on our core values and by offering competitive products in a variety of ways to existing and potential new members. That is what we did, and it proved, again, to be a highly effective strategy. The Society achieved a record number of sales and membership grew further.

2018 was designated as "the year of technology" and our developments in this field have played a major part in delivering continued growth in sales income and member numbers. It is just as important to retain members and so 2019 has been designated "the year of enhancing the Members' experience." When growth in new members is added to by successful member retention, then the opportunity to succeed is greatly enhanced. By investing in our people, our products and further technological development, I am confident we will enjoy continued success and, as a member-owned organisation, deliver this onwards to you.

There are difficulties to face in the world today and some of these were present throughout 2018 and will still be there in 2019. The most important issues globally, which have knock-on effects to us, are the weakening growth of the Chinese economy, the trade disputes between the USA and China, and the increasingly divided and fractious politics within the USA and the UK. These factors led to a decline in the value of world stock markets in 2018, which was reflected in a decline in the value of our investments.

However, our role is to protect you from events such as these. We do this by building up financial reserves so that, in difficult investment market years, we can try to pay you the same bonus as in good years. I am pleased to confirm that this "smoothing approach" means that bonuses awarded in 2018 are the same as in 2017.

My role as Chairman is, in itself, facilitated by the untiring efforts of all my Board colleagues and the team of executives and staff in the Society. I take this opportunity to thank them for their dedication and commitment to the Society and its members.

Joanne Hindle
Chairman
2nd April 2019

STRATEGIC REPORT

Chief Executive's Report

Overview

For the Group and the Society, 2018 has been another very successful year.

We have increased our income levels and new members significantly against a backdrop of challenging operational activity. Significant workloads were incurred in 2018 on major new regulatory requirements such as the General Data Protection Regulation, The Insurance Distribution Directive and the Senior Manager and Certification Regime. In addition to global external factors, outlined by the Chairman, causing increased management activity in respect of our investments, the Society also extended and refurbished its office space to accommodate business expansion. All these activities involved considerable resources. At the year end, the Group's total surplus available for distribution to our members was £23.7m. This decrease of £1.2m from the previous year was driven mainly by lower investment returns.

The performance of the Society's subsidiary, Financial Advice Network ("FAN") has also been outstanding. As an FCA authorised network of advisers, FAN is benefitting from more consumers seeking financial advice in an uncertain economic environment. FAN's commission income in the year was £396,000, an increase of £97,000 from £299,000 in 2017. As the financial results of FAN remain a small proportion of the overall results of the Group, my report will focus mainly on the Society.

Putting our members first

This year has seen the Society implement member first initiatives such as a web-based portal that now provides ISA and JISA plan holders the ability to interact with their plan online.

We have also improved our claims handling speeding up the entire process, by digitising the journey. Additional support services have also been added to ensure members receive the help they need at the time they need it.

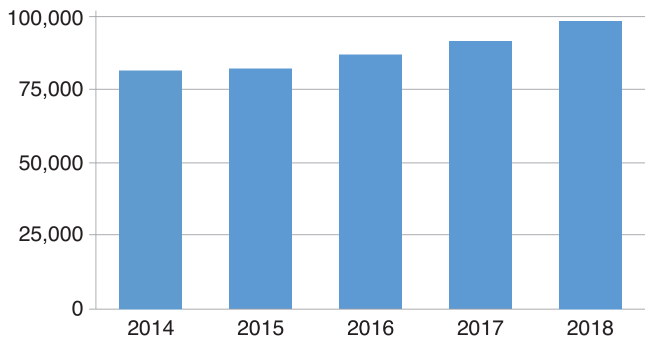
As highlighted by the Chairman, I am also pleased to report that we have once again paid with-profits policyholders a bonus. This is due to the process we use called 'smoothing' which protects our members' money even in difficult market conditions.

Financial summary

New Business Acquired

Our ability to achieve excellent growth in sales remains our strongest capability and is attributable to a diversified product range allied to a diversified distribution strategy. By combining traditional distribution channels for some products, and innovative digital strategies for others, new business acquired in 2018 was 12,259 plans, an increase of 1,546 from 10,713 plans in 2017.

This has contributed to the Society recording 98,300 in force plans at the end of 2018 (2017: 91,963). The increase in the number of in force plans by 6.9% represents a great success in a market characterised by economic uncertainty and is a major step towards delivering our strategic target of 100,000 in force plans at the end of 2019.



Number of In Force Plans

STRATEGIC REPORT

Chief Executive's Report

Premium Income

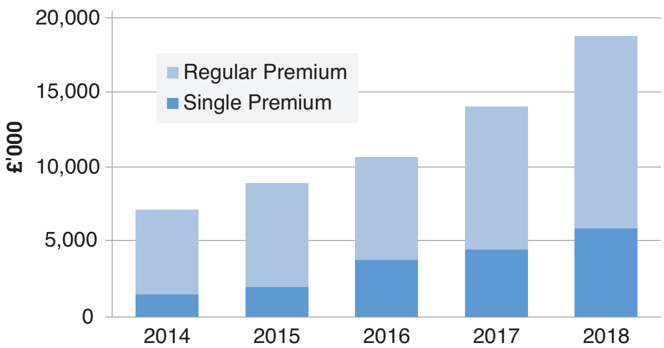
Throughout the year we successfully managed growth in premiums, by volume and product, to support our strategy to have our solvency ratio within our preferred band of 150% to 250% of the required regulatory solvency margin.

New business sales in the year, coupled with the increased number of in force plans brought forward from prior years, has meant that total premium income has increased from £14.17m in 2017 to £18.78m in 2018. This represents an increase of 33% and, importantly, 70% of the Society's premium income in 2018 is in the form of regular premium contributions. This is important because regular premium business tends to stay in force for much longer than single premium lump sums, thereby increasing future profitability and, by contrast to single premium business, working to our favour in solvency capital requirements. Our new business Annual Premium Equivalent, which is an industry standard measure, was £7.89m in 2018 representing an increase of £1.59m over 2017.

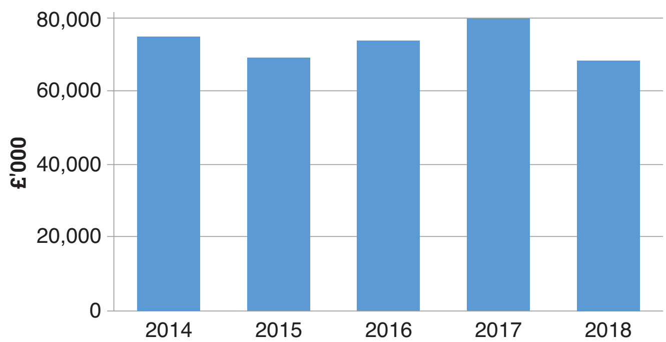
Investment Returns

Global equity markets have experienced an increased level of volatility in 2018, for the reasons given in the Chairman's Report, and our investment assets have fallen in line with world stock markets. The major investment markets in the USA and UK ended 2018 significantly lower than in 2017. Excluding investments held for the Child Trust Fund and unit-linked Junior ISA, the unrealised investment loss due to market movements in 2018 was £2.96m (2017: gain of £2.92m.) Dividend income and interest income in 2018 was more stable at £1.39m (2017: £1.42m).

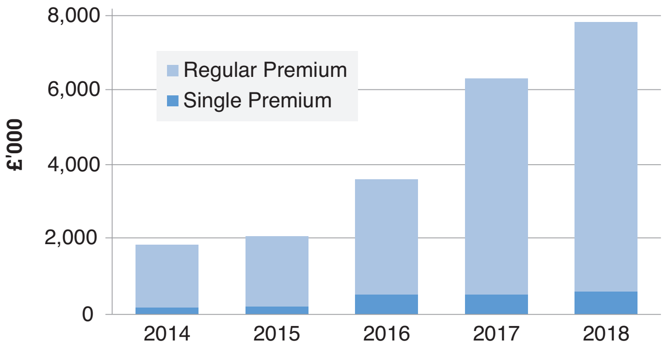
For the Society's Child Trust Fund and Junior ISA that is invested in unit linked UK FTSE tracker funds, the cumulative investment loss due to market movements in 2018 was £3.2m (2017: gain of £4.15m).



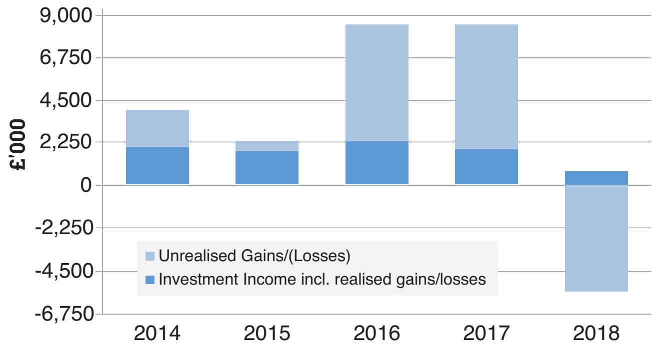
Premium Income



Total Group's Investment Assets



New Business Annual Premium Equivalent

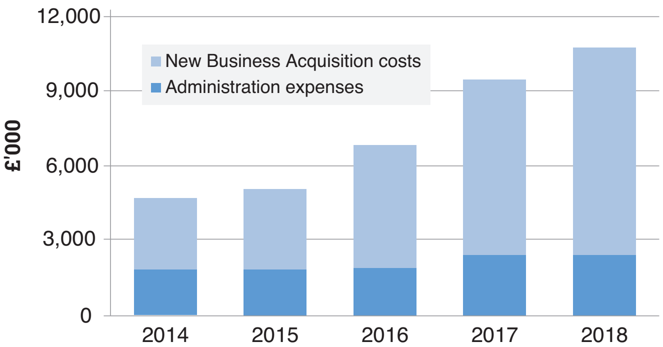


Investment Income

Chief Executive's Report

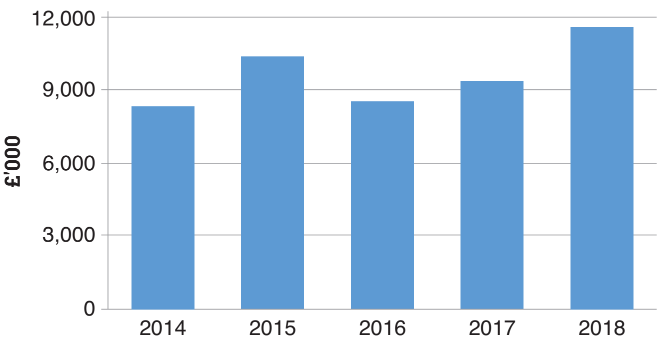
Expenses and Claims

Another important key financial measure is expenses. Here we have experienced an expected increase due to our continuing investment in generating new sales, technology, people and facilities to support the growth of the business and in activities to ensure we treat our members and policyholders fairly in all circumstances. In 2018, we also signed a new lease to improve our existing office facilities. As a Society founded in the local area, we are proud to be able to commit our presence in the local community over the longer term.



Group & Society Operating Expenses

The Society's reason for existence is to provide financial protection for its members and policyholders. Given the growth in the number of in force plans, particularly income protection plans, total claims payable in 2018 has increased by £2.28m to £11.47m (2017: £9.19m). In the year, we have paid out 96% of all claims received.



Claims Paid

Financial Strength

In accepting higher levels of expenses 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 31 December 2017, the Solvency Ratio was 235% and by the end of 2018 it was 153%, a reduction largely caused by the fall in the value of world stock markets but still a strong result.

STRATEGIC REPORT

Chief Executive’s Report

Looking Forward

Investing in the Business

As the Society grows, we will remain committed to having the resources to support expansion. Central to this will be our continued investment into technology to improve the ease with which our members can deal with us. In the near horizon, we have identified opportunities to incorporate technology in how members manage their policies and in the ways we work with our intermediaries. It is our ambition that technological solutions will further strengthen your view of the Society as a modern mutual, but we will never lose sight of the importance of being available to talk to you when you feel the need, which can often be in times of personal difficulty.

Maintaining Growth

As the increasing economic uncertainty, both in the UK and globally, continues to affect consumer demand for insurance and investment type products, we realise future new business growth may not always be achieved by us generating higher and higher sales volumes. We will continue to explore options available to us to reach a far bigger audience by working with others and assess the potential outcomes against our strategic objectives.

Brexit Uncertainties

We do not believe that Brexit, in whatever form it takes, will have much adverse impact on the Society or the products you have purchased from us. The Society has been able to manage the investment portfolio successfully, and to pay consistent levels of bonus, since the financial crash of 2008 when stock markets and interest rates hit the lowest levels, relatively speaking, for a lifetime. We expect the impact of Brexit to be less than the 2008 financial crisis and our policy of “smoothing” returns will remain an effective way to diminish adverse impacts.

Regulatory Landscape

The Society maintains high regulatory and governance standards and expects no change in this respect going forward. 2019 will be a quiet year for new regulations coming into force but we are mindful that in the next 4 years there may significant regulatory work to do, as leaving the European Union will cause many European Directives to fall away and the UK financial regulators will have to amend their rulebooks.

We will enjoy a quieter regulatory year but we will maintain internal capability, and on occasion, external expert support to ensure we can implement regulatory change again when it begins to occur.

Ann-Marie O’Dea
Chief Executive
2nd April 2019

STRATEGIC REPORT

Business Review

Business Performance

A fair review of the business performance for the year together with the financial KPIs are contained in the Chief Executive's Report on pages 5 to 8 and the Chairman's Report on page 4.

Forward Looking Strategy

Three year Strategic Plan

2017 saw the start of the Society embarking on its 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 by 31 December 2019; and**
2. **Maintaining a solvency ratio of between 150% - 250%.**

The Society remains on-track to achieving these objectives.

Business Environment

Principal Risks and Uncertainties

The principal risks and uncertainties identified as a result of the business environment we operate in are contained in the Risk Management Report on pages 10 and 11.

Brexit Risk and Uncertainties

As the Group's sources of income and operations are predominantly in the UK, the Group has not identified any material risks as a direct result of Brexit. Further details are contained in the "Looking forward" section of the Chief Executive's Report on page 8.

Trends and Factors Affecting Future Development

Our assessment of trend and factors in our business environment, and its likely impact on the future development of the business is contained in the "Looking forward" section of the Chief Executive's Report on page 8.

Risk Management Report

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 Group and the Society, risk management is multi layered. Employees, senior management and the Board are involved with consideration of risks that are materially relevant at their level of responsibility. Underpinning the Group's risk management is the Risk Management Framework comprising a wider set of documented methodologies that include:

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

To facilitate our risk management framework, all staff and Board members have access to an on-line risk management tool ("The Risk Database") which enables them to enter new risks and manage existing risks as an embedded part of their routine business activities. This system also highlights the deteriorating position of individual risks, and it triggers alerts to the relevant level of management when thresholds are breached.

The Risk Database is monitored by the Risk and Compliance Team, and regular reporting is delivered to the Group's Finance and Risk Director, Justine Morrissey who is also a member of the Board Risk Committee. The most material risks are managed by the Board Risk Committee consisting of independent non-executive directors who have overall oversight of risks within the Group and the Society. The Committee's report for the year is on page 21.

Risk Appetite and Tolerances

The European Solvency II Directive has been a major influence on how risks are 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 Own Risk Solvency Assessment ("ORSA") on an annual basis or more frequently if the Society's risk profile has changed materially.

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

The Society has an ORSA production policy in place and this ensures that the Board is involved in delivering the ORSA. And, inherent in this process is the setting of the Society's Risk Appetite Statement and tolerance range 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 a comprehensive analysis of the material risks faced by the Society and a summary of these is shown below. Further details on these risks are provided in Note 6 of the Financial Statements.

Summary of material risks

Risk	Description	Management and mitigation
Solvency Risk	This is the risk that the Society's solvency ratio falls below its regulatory Solvency Capital Requirement ("SCR") causing the Society to curtail its business model until financial strength has been restored.	The Society produces a forward-looking assessment on its likely future solvency position on a range of scenarios. Based on the assessment, management identify areas where particular focus is required. Management also identify actions to protect its capital position and reduce its SCR.
Asset Share Coverage Risk	The Society should be able to cover its with-profits liabilities with the non-unit linked assets held on its Statement of Financial Position (see page 34).	In the short term, the Board will continue to review the appropriate levels of investment and other assets which underpin the returns available for distribution to with-profits policyholders.

Risk Management Report

Summary of material risks

Risk	Description	Management and mitigation
Cashflow Risk	This is the risk that the Society makes unexpected call on assets to make payments and reduce investment returns for its members, and strains as a result of acquiring new business.	The Board monitors expenses and cashflow against budget. The Society produces a cashflow projection that is shared with the Investment Managers to allow for cash calls to be pre-planned.
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 financial assets.	Before entering into any third-party relationship, the Society conducts due diligence, at an appropriate level of detail, on the proposed partner. The Board Risk Committee, the Audit Committee and the Fair Members Benefit Committee are all involved in the oversight of material third party arrangements.
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.	The Society sets appropriate levels of new business by product type and monitor closely the rates of claim and persistency being experienced. Business volumes and new business sources are adjusted accordingly to ensure the impact of any deteriorating experience is negated.
Market Risk	This risk involves significant movements in the financial markets such as interest rate rises and falls, stock market swings and declines in the values of investment properties or investment in associate. Movements in the rate of inflation are an important element within market risk as are major geopolitical changes. Sudden material declines 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 ("PPFM") the parameters for the investment of its assets in a prudent manner and relative to the nature of the liabilities being under-pinned. Based on these parameters, the appointed Investment Management company invests in line with a formal Investment Management Agreement ("IMA"). Compliance to the IMA is closely monitored by the Board.
New Business Risk	The Society must continue to generate growing volumes of new business sales to ensure it can continue to fund ongoing operations and generate the returns and benefits reasonably expected by its policyholders and members. If this is not achieved, then the risk emerges of spending too much of the member's surplus to fund operational requirements.	The Society maintains a varied product range and varied distribution channels to provide continuous flexibility and adaptability to changing market circumstances. It sets new business targets in line with the strategic plan and risk appetite/tolerances. Competitor activity and emerging market changes are monitored to capitalise on opportunities when identified.
Operational Risk	Included in this risk are matters such as reliable customer business service, compliance with legal and regulatory matters, good customer conduct, data and IT security, and business continuity or disaster recovery capability. Failures in these areas could result in reputational damage leading to loss of customers, and/or financial penalties.	By ensuring there are detailed policies, processes and procedures documented for operational activities, the Society maintains a low risk operational environment. Compliance is monitored using the "three lines of defence" approach and any recommended corrective actions are implemented if required.

Board of Directors

We present below the members of our Board in 2018 along with a summary of their professional experiences. The members of the Board will present themselves for re-election at the next Annual General Meeting ("AGM") in June 2019, with the exception of Roger Turner and Geoffrey Ross. As Geoffrey Ross has indicated that he will not stand for re-election at the 2019 AGM, the Board has therefore co-opted Cameron Mills to join them pending the AGM where he will stand for election as Geoffrey Ross's successor. A recruitment process is currently on-going for Roger Turner's successor who will stand for election at the 2019 AGM.

Profiles of the Board Members in 2018

Joanne Hindle
Chairman

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

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

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

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

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

Ann-Marie O'Dea
Chief Executive

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

External appointments: None

Simon Pashby
Non-Executive Director

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

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

Roger Turner
Non-Executive Director

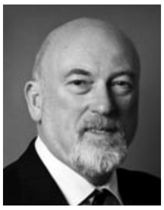
Experience: Roger has extensive experience in financial services; having been a trader in fixed income and derivatives, a regulator and a consultant with PwC where he was a Partner within the Financial Services Regulatory Practice. He has worked predominantly in the UK but undertaken numerous assignments for overseas organisations most notably in the Far East and the USA. He holds a B.A. (Hons.) and a M.B.A. in Finance from the City University Business School.

External appointments: CEO of FM Capital Partners Limited, an asset manager based in London, and Non-Executive Director of Monmouthshire Building Society and Chair of their Remuneration Committee.

Kim Harris
Executive Director

Experience: Kim has a long history with the Society, initially as a Non-Executive Director and currently as Executive Director of the Society. In his role he supports the Chief Executive in the implementation of the Strategic Plan and carries accountability for maximising the business opportunities available to the Society. He is also director for the subsidiary company of the Society, Financial Advice Network Limited. 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.

External appointments: None



Geoffrey Ross
Non-Executive Director

Experience: Geoffrey has spent his entire career as an actuary in the life assurance industry holding Chief Actuary and Finance Director roles in a number of insurance companies/ friendly societies. 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. Latterly he acted as With Profits Actuary of Reliance Mutual followed by Reliance Life Limited.

External appointments: None

Cameron Mills
Non-Executive Director

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

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

Justine Morrissey
Executive Finance and Risk Director

Experience: Justine has worked her entire career as an actuary. She joined the Society in 2012 and became Finance and Risk Director in July 2015. Justine has over 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.

External appointments: None

Board Attendance in 2018

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

Name	Jan Bm	Mar Bm	Apr Bm	May Sd	Jun Bm	Sep Bm	Sept Sd	Nov Bm
Joanne Hindle - Chairman and NED	✔	✔	✔	✔	✔	✔	✔	✔
Nemone Wynn-Evans - NED	✔	✔	✔	✔	✔	✔	✔	✔
Geoff Ross - NED	✔	✔	✔	✔	✔	✔	✔	✔
Simon Pashby NED	✔	✔	✔	✔	✔	✔	✔	✔
Roger Turner NED	✔	✔	✔	✔	✔	✔	✔	✔
Ann-Marie O'Dea - CEO	✔	✔	✔	✔	✔	✔	✔	✔
Kim Harris - Executive Director	✔	✔	✔	✔	✔	✔	✔	✔
Justine Morrissey - Executive Director	✔	✔	✔	✔	✔	✔	✔	✔
Tim Robertson - Company Secretary	✔	✔	✔	✔	✔	✔	✔	✔

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

Directors' Report

Directors and Interests

Details of the current members of the Board are given on pages 12 and 13. Information on how they have governed and managed the affairs of the Society in the year is given in the Corporate Governance Report on pages 16 to 18.

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

Business Activities & Future Development

The Group comprises The Shepherds Friendly Society Limited ('the Society') and its subsidiary company. The Society, together with its subsidiary company, carries out certain types of insurance and financial services business in the United Kingdom. The Society is incorporated under the Friendly Society Act 1992 and is categorised as a Directive Friendly Society. The Society is authorised by the Prudential Regulation Authority, regulated by the Financial Conduct Authority and Prudential Regulation Authority, and is subject to the European Union Solvency II Directive.

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

The Board sets objectives and priorities supported by KPIs and targets, which it monitors on an on-going basis throughout the year. A summary of the financial results for the year together with the KPIs and future development are contained in the Chief Executive Report on pages 5 to 8.

Risk Management & Internal Control

In accordance with the UK Corporate Governance Code, the Directors have carried out a robust assessment of the principal risks facing the Group and the Society. An overview of the Group's risk management can be found on pages 10 and 11. Note 6 to the financial statements also provides details about the Group's risk management and controls. The effectiveness of the Society's internal control in managing those risks is monitored by the Audit Committee and an overview of this process is included in the Audit Committee report on pages 19 to 21.

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

Employees

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

Further details on the Society's commitment on diversity and equality can be found on page 17 of the Corporate Governance Report.

Donations

The Society donated £1,600 (2017: £1,000) to charities during the year. No political donations were made during the year (2017: £nil).

Going Concern Statement

The Corporate Governance Code requires that the Directors state whether the business is a going concern over the next 12 months. In considering this requirement, the Directors have taken into account the following:

- The Group's business activities, together with the factors that are likely to affect its future development and position (see details in the Chief Executive's Report from pages 5 to 8);
- The analysis of material risks faced by the Group and the management of those risks (see details in the Risk Management Report from pages 10 and 11); and
- The confirmation from the Society's actuary that the Society had a solvency level higher than that required under the Solvency II Directive as at 31 December 2018 and throughout the year (full details will be included in the Solvency and Financial Condition Report which will be made available on the Society's website during 2019).

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

Longer-term Viability Statement

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

The Directors have carried out a robust assessment of the principal risks facing the Society. This assessment, performed as part of the ORSA process, considers the resilience of the Society to risks that would

CORPORATE GOVERNANCE

Directors' Report

threaten the business model, future performance, solvency or liquidity of the Society. This includes an assessment of the Society's capital resilience to stress testing using a range of severe but plausible scenarios to the end of 2021. The scenarios considered included significant unfavourable variations in the levels of new business, underlying economic assumptions, and policy lapses and claims compared to those expected.

Based on this assessment, the Directors have reasonable expectation that the Group and the Society will be able to continue in operation and meet their liabilities as they fall due over the period to December 2021. While the ORSA indicated a viability over a longer time period, the Directors recognise inherent uncertainty increases over time and therefore they have reflected this in the period for the assessment of viability.

Statement of Responsibilities of the Board of Directors

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

The Directors are also responsible for preparing the Strategic Report (please see Pages 4 to 11), the Report on Corporate Governance (please see Pages 12 to 25) and the Financial Statements (please see pages 30 to 62), in accordance with applicable law and regulations.

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

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

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

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

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

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

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

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

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

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

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

Disclosure of Information to the Auditors

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

Auditors

Moore Stephens LLP (London) were appointed as external auditor to the Society and Group on 19 June 2018 and have confirmed their independence to the Board of Directors.

Following the merger of Moore Stephens LLP and BDO LLP on 1 February 2019, Moore Stephens LLP have resigned as external auditors and BDO LLP have been appointed as external auditors to the Society and Group with effect from 1 February 2019. A resolution to confirm the appointment of BDO LLP will be proposed at the 2019 Annual General Meeting.

T Robertson
Company Secretary
2nd April 2019

Corporate 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 2008. This change is welcomed by 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 had effective systems and controls in place during the year and at the time of producing this report.

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

Historically we were governed by the Friendly Society Act, 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. Each of these are discussed here.

The UK Corporate Governance Code (Annotated for Mutual Insurers)

The Society is a member of the Association of Financial Mutuals ("AFM") and as such is committed to satisfying all the standards set by this Code. The 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 Annotated Corporate Governance Code will be superceded by the AFM's new Corporate Governance Code ("the AFM Code") which takes effect from 1 January 2019. For 2018, the Society followed the AFM's Annotated Corporate Governance Code.

The Annotated Corporate Governance 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 the Board of Management has achieved full compliance with these throughout 2018.

Leadership

The 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 that is achieved within the defined risk appetite. The Board is responsible for the performance of an Own Risk and Solvency Assessment ("ORSA") 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 Operating Manual.

The non-executive directors on the Board are competent, experienced professionals and effectively challenge the Executive team, as well as developing the forward-looking strategy of the Society. The biographies of the directors are on pages 12 and 13. Nemone Wynn-Evans will continue her role as Senior Independent Director.

Effectiveness

The 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. Throughout their appointment, we monitor that they all have sufficient time availability to fulfil their duties. All non-executive directors meet the definition of being independent, including the Chairman who has been a member of the Board since 2008. Although she has been a director on the Board for over nine years, Joanne continues to demonstrate independence of thought and judgement, and acts with an independent character. We also confirm that her external appointments do not have any adverse effects on her capability to fulfil her role of Chairman of the Society.

Any appointments are recommended to the Board by the Nominations & Governance Committee following a formal, rigorous and transparent process. During the year, a number of candidates were interviewed for a non-executive role on the Board, and Cameron Mills was appointed on 1 January 2019. His terms and conditions of appointment will be made available for inspection at the next Annual General Meeting, or at the Society's registered office during normal business hours. Since his appointment, Cameron has been through a full, formal and tailored induction process. A similar formal, rigorous and transparent process is on-going to recruit a non-executive director to succeed Roger Turner.

The Nominations & Governance Committee also operates 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 on the induction training they received upon commencing their roles. Non-executive directors are subject to annual re-election during their term of office by the members 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. Following a review of a number of independent assessors, the Board engaged Rory Clayton, an external facilitator who is not connected to the Society to conduct a Board effectiveness review in 2018.

Corporate Governance Report

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

Accountability

The Board presents a fair, balanced and understandable assessment of the Society's position and prospects to its Members by the publication of this Annual Report and Financial Statements and of the Solvency and Financial Condition Report. Both documents are prepared in conjunction with the Society's Actuary and other Governance Consultants, and the Financial Statements are externally audited, which ensures the views of the Board are independently assessed as part of the production process. Both documents can be accessed on the Society's website.

Each year the Society is required to prepare another document - an Own Risk and Solvency Assessment (ORSA) - which is a regulatory requirement. This document is prepared by the Board and provided to our regulators. It 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 principal risks and uncertainties are disclosed in the Risk Management Report on pages 10 and 11.

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 internal policies, processes and procedures. The effectiveness of these systems is monitored both by the internal compliance team, the independent Internal Audit firm and the Audit Committee.

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 Remuneration 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 cultivates its relationships with members through a varied programme which maintains contact with them and enables them to pass on their views about the Society. These methods are a mixture of face to face 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 through the Society's website, should they have concerns which they do not feel have been properly dealt with through other channels of communication.

The Society holds a General Meeting annually for members to vote for or against the approval of the Annual Report and Financial Statements and other substantial issues. For each resolution, members have the option to elect the Chairman as a proxy for their vote.

The last General Meeting was held on 19 June 2018 and the meeting was attended by all Board members. The minutes of the meeting and results of the voting for each resolution is accessible through the Society's website.

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.

An assessment of the Society's gender pay gap is included in the Remuneration Committee report on page 23.

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

Governance Standards of UK and European Union regulators

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

How the Society has satisfied their requirements is explained here.

CORPORATE GOVERNANCE

Corporate Governance Report

Prudential Requirements

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

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 2018 and the prior year the Society comfortably maintained such a position. A measure of solvency is the Solvency Ratio which is a percentage showing how much capital resource the Society has over what is needed as a minimum to meet the liabilities of the Society as they fall due.

In 2017 this figure was 235% and in 2018 it was 153%, a reduction attributed mainly to investment markets decline at the end of 2018, but still well above our required minimum solvency. 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 2018 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 regulators announced this will be further strengthened and renamed the Senior Manager & Certification 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 regulators.

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

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

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

CORPORATE GOVERNANCE

Board Committee Reports

Governance oversight of all the Society's activities is conducted through a number of Board Committees which are 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
Board Risk Committee	Nemone Wynn- Evans
Fair Members Benefit Committee (previously With-Profits Committee)	Geoffrey Ross
Nominations and Governance Committee (previously Nominations Committee)	Joanne Hindle
Remuneration Committee	Roger Turner
Investment Committee (disbanded on 14 February 2018)	Geoffrey Ross

A brief summary is given below of the most significant governance work conducted by these Committees throughout 2018.

Audit Committee

Key Responsibilities

The primary responsibilities of the Audit Committee is to:

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

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

Committee Membership

The qualifications of each member of the Committee are included in their biographies on pages 12 and 13. The Board is satisfied that the Chairperson, Simon Pashby has competence in accounting and auditing.

There were five meetings in the year as follows:-

	13 Feb	26 Mar	9 July	28 Sept	5 Nov
S Pashby (Chairman and non-executive director)	✔	✔	✔	✔	✔
G Ross (non-executive director)	✔	✔	✔	✔	✔
J Hindle (non-executive director) from 1 March 2018	-	✔	✔	✔	✔

Board Committee Reports

Significant matters considered by the Committee

Significant matters relating to the financial statements

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

Significant matters considered in 2018	How the matter was addressed by the Committee
Technical provision valuations and assumptions for the 2018 Annual Report and Financial Statements	As it is a significant risk area, the Committee received papers from the Chief Actuary setting out the proposed valuation assumptions and methodology. The Committee considered and challenged the recommendations made, and they were satisfied that the methodology and assumptions were appropriate having also considered the views of the Fair Members Benefit Committee.
Presentation of technical provisions for the 2018 Annual Report and Financial Statements	During the year the Committee considered the presentation of technical provisions on the Statement of Financial Position, and agreed to a change in presentation to split out the long term business provision. Insurance contracts that are expected to generate a net future cash inflow are now presented separately as an asset. The Committee agreed that this was a material change and that a prior year restatement for 2017 was appropriate. Further details are in Note 4 to the financial statements.
Revenue recognition and classification of contracts for the 2018 Annual Report and Financial Statements	As there were no new products introduced in the year and no significant changes have been made to terms of existing products, the Committee concluded that the recommendation to apply the existing product classifications for the 2018 Annual Report and Financial Statements was appropriate.
Valuation of investment assets for the 2018 Annual Report and Financial Statements	The Committee considered the valuation of unlisted investments, in particular the investment in Life's Great Group Limited and the investment property held by the Group. The Committee concluded that the valuations were reasonable having reviewed the valuations including additional disclosures, and having regard to the external auditor's independent assurance of the valuations of listed investments.
Approval of the 2017 Annual Report and Financial Statements	In March 2018, the Committee reviewed and approved the 2017 Annual Report and Financial Statements for the Group and the Society. This included reviewing key accounting judgements and assessing the appropriateness of the going concern assumption. The Committee ensured the annual report and financial statements were fair, balanced and understandable before recommending them to the Board for approval. In September 2018, the Committee also reviewed and recommended to the Board for approval the 2017 financial statements for Financial Advice Network Limited.

Board Committee Reports

External Audit

The Committee monitors the independence and objectivity of the external auditors. The Committee reviewed the policy for non-audit services and agreed that any engagement for non-audit services requires pre-approval of the Committee to ensure that the provision of such services does not impair the external auditor's independence or objectivity.

The Committee also considers the need to re-tender on an annual basis. The Committee were satisfied from the conversations with the external audit firm, and from the effectiveness of the audit process itself, that the external auditors performed to the required standard and no re-tendering was required in the year.

The UK Corporate Governance Code requires the external audit contract to be put out to tender once every 10 years. Now merged with BDO LLP in February 2019, Moore Stephens LLP were engaged as external auditors in 2010. The Committee has recommended to the Board that a re-tendering exercise be carried out before the ten year limit is reached, to determine whether BDO LLP can continue to act as external auditors for up to 20 years in total, or an alternative firm is engaged.

Internal Audit

The Committee considered regular reports from Internal Audit on the effectiveness of the Group's control environment. Additionally, the Committee reviewed the Internal Audit plan for 2019 - 2021 and agreed with the proposed scope.

Other significant items

Other significant items considered during 2018:-

- Reviewed the 2017 Money Laundering Reporting Officer's Report;
- Reviewed the accounting related sections of the Solvency and Financial Condition Report (SFCR) and Regulatory Solvency Report (RSR) for the year ended 31 December 2017 and recommended them to the Board for approval; and
- Reviewed the 2017 Corporation Tax computations for the Society and its subsidiary.

Board Risk Committee

Key Responsibilities

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

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

Committee Membership

There were five meetings in the year as follows:-

	14 Feb	27 Mar	10 July	27 Sept	6 Nov
Nemone Wynn-Evans (Chairperson and non-executive director)	✔	✔	✔	✔	✔
Joanne Hindle (non-executive director)	✔	✔	✔	✔	✔
Roger Turner (non-executive director)	✔	✔	✔	-	✔
Geoff Ross (non-executive director) from 27 March 2018	-	✔	✔	-	✔
Justine Morrissey (executive director)	✔	✔	✔	✔	✔
Graeme Charters (external expert adviser)	-	✔	✔	✔	✔

Significant matters considered by the Committee

Significant items considered during 2018:-

- Re-scoping of the Committee's Terms of Reference to reflect its expanded role under Solvency II;
- Commencement of the ORSA cycle for 2018 & discussion of appropriate stress and scenario tests;
- Reviewed the specific risk sections of the SFCR and RSR with recommendation of approval to the Board;
- Reviewed the Financial Condition Report and management action plan;
- Reviewed the cashflow requirements for the Society;
- Considered the Cyber Security Risk Report for the Society;
- Reviewed the 2018 ORSA with recommendation to the Board for approval; and
- Considered compliance during the year.

Board Committee Reports

Investment Committee

The Investment Committee was disbanded on 14 February 2018. The responsibility of the committee which was to manage the investment of the Society's assets has been transferred to the Board, Board Risk Committee and the Executive Directors.

There was one meeting prior to the disbandment on 19 January 2018 attended by all Investment Committee members.

Fair Members Benefit Committee (previously With-Profits Committee)

Key Responsibilities

The purpose of the Fair Members Benefit Committee is to make recommendations to the Board to ensure that fair outcomes are achieved for all members and policyholders, in particular with-profits members, having regard to their characteristics and fair expectations. The Committee also monitors compliance with all aspect of the FCA rulebook applicable to with-profits business. In 2018, the Committee was renamed to reflect its wider remit to ensure fair treatment of all members.

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

Committee Membership

There were four meetings as follows:-

	27 Mar	9 July	28 Sept	5 Nov
Geoff Ross (Chairperson and non-executive director)	✔	✔	✔	✔
Simon Pashby (non-executive director)	✔	✔	✔	✔
Nemone Wynn-Evans (non-executive director)	✔	✔	✔	-
Kim Harris (executive director)	✔	✔	✔	-
Nasrin Hossain (Chief Culture Officer)	✔	✔	✔	✔

Significant matters considered by the Committee

Significant items considered during 2018:-

- Reviewed the With-Profits Actuary reports on PPFM compliance and the exercise of discretion in 2017;
- Reviewed the With-Profits Actuary and Board reports to with-profits policyholders;
- Considered and recommended to the Board the bonus rates in respect of 2017 for "Holloway" plans;
- Reviewed and recommended to the Board for approval the Financial Condition Report;
- Reviewed the PPFM to ensure it appropriately reflects the way in which the with-profits fund is managed;
- Reviewed the terms and conditions of the Young Saver and Over 50's plans;
- Considered and recommended to the Board the bonus rates in respect of 2018; and
- Considered reports on the quality of service provided to with-profits policyholders, having regards to complaints, lapses and other measures.

Nominations and Governance Committee (previously Nominations Committee)

Key Responsibilities

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. In 2018, the Committee was renamed to reflect its wider remit to assist and advise the Board in exercising its governance responsibilities.

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

Committee Membership

There were five meetings as follows:-

	31 Jan	15 May	10 July	27 Sept	5 Nov
Joanne Hindle (Chairperson and non-executive director)	✔	✔	✔	✔	✔
Roger Turner (non-executive director)	✔	✔	✔	-	-
Simon Pashby (non-executive director)	✔	✔	✔	✔	✔

Board Committee Reports

Significant matters considered by the Committee

Significant items considered during 2018:-

- Reviewed the 2017 CPD records for the Board and agreed the approach for 2018;
- Considered the 2017 board assessments;
- Determined the scope for the Board effectiveness review in 2018 and considered the merits of the external candidates identified to perform the review;
- Recommended to the Board the external facilitator who will perform the Board effectiveness review and agreeing with them the scope and follow up actions for the Board;
- Considered consultation papers in relation to the Senior Managers and Certification Regime ("SMCR"), and approach to achieving compliance;
- Reviewed the results of the 360 appraisal questionnaires;
- Recommended to the Board that the Board receive training on the digital member journey, artificial intelligence and cyber security in 2019;
- Reviewed the approach and management responsibility map for implementation of SMCR, and recommended the papers to the Board for approval; and
- Considered the composition of the Board and Board Committees and the balance of skills, experience, knowledge and diversity.

Remuneration Committee

Key Responsibilities

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

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

Committee Membership

There were four meetings as follows:-

	31 Jan	10 July	27 Sept	5 Nov
Roger Turner (Chairperson and non-executive director)	✔	✔	-	-
Joanne Hindle (non-executive director)	✔	✔	✔	✔
Simon Pashby (non-executive director)	✔	✔	✔	✔

Significant matters considered by the Committee

Directors' Remuneration

The significant matters considered by the Committee are in relation to the remuneration for the directors. These are detailed in the Directors' Remuneration Report on pages 24 and 25.

Gender Pay Gap

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

The Society's gender pay report reveals a positive picture and that there is no disparity between the pay of men and women. The Society's median pay gap is lower than both the national and industry average. Our median pay gap figure also compares favourably with other similar sized financial services organisations who have published their gender pay gap reports. The Society is the only organisation in this peer group where the mean pay average and mean bonus pay is higher for women than men.

The Society does recognise that despite having 4 female Directors we could improve upon the number of female staff employed as part of our senior management team.

The Society's current gender split is 50% male and 50% women. 10% of our staff are of ethnic minority background.

Directors' Remuneration Report

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

Remuneration Policy

The Society's remuneration policy rewards both corporate and individual performance as well as providing a competitive package to attract and retain high calibre individuals. The policy complies with the requirements of the European Solvency II Directive and all relevant regulatory obligations. We will comply with good corporate governance practice as well as relevant 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 members 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; and
- achieving equity, fairness and consistency in the operation of rewards policies and practices.

Executive Directors' Remuneration

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

Salary

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

Performance Bonus

The Executive Directors 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 Group measured against the agreed targets and recommended for approval by the Remuneration Committee to the Board.

Pension

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

Benefits in kind

The Executive Directors are provided with private healthcare insurance.

CORPORATE GOVERNANCE

Directors' Remuneration Report

Non-Executive Directors' Remuneration

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

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

Board Remuneration 2018 (audited)

Name	Salary £	Bonus £	Pension Supplement £	Other Benefits £	Total 2018 £	Total 2017 £
EXECUTIVES						
A M O'Dea	193,800	58,140	26,725	1,210	279,875	246,605
K Harris	118,082	35,425	17,810	854	172,171	158,013
J Morrissey	141,294	42,388	15,342	1,149	200,173	159,503
NON-EXECUTIVES						
J Hindle	45,000	-	-	2,714	47,714	48,338
G Ross	32,400	-	-	3,149	35,549	35,695
N Wynn-Evans	32,400	-	-	1,144	33,544	34,067
S Pashby	27,400	-	-	804	28,204	30,755
R Turner	27,400	-	-	3,071	30,471	33,492
Total	617,776	135,953	59,877	14,095	827,701	746,468

Non-Executive Directors receive expenses for travel to and from Board meetings at the Group's Head Office. These are taxed through PAYE and are included under "Other Benefits".

Roger Turner
Chairman - Remuneration Committee
2nd April 2019

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

Opinion

We have audited the financial statements of The Shepherds Friendly Society Limited (the 'Society') and its subsidiary (together the 'Group') for the year ended 31 December 2018 which comprise the Society Statement of Comprehensive Income, Group Statement of Comprehensive Income, Society Statement of Financial Position and Group Statement of Financial Position and notes to the financial statements, including a summary of significant accounting policies. For Group reporting purposes the subsidiary was considered to be immaterial. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2018 and of the Group's and Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and 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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention in respect to:

- the disclosures in the annual report set out on pages 10 and 11 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 10 in the annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 14 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- whether the directors' statement relating to going concern made in accordance with the UK Corporate Governance Code is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 14 and 15 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matter	How our audit addressed the key audit matter	Observation
Valuation of technical provisions **Note 2(r) and Note 19** As at 31 December 2018 the Group and Society recognised a net Long Term Business Provision and Technical Provision for Linked Liabilities ('Technical Provision') of £48.7m (2017: £55.7m) 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: • External life actuarial experts were used to review and report on the methodology and assumptions applied by management 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 as compared to the previous period, considering whether these were reasonable and in line with acceptable parameters. • We substantively tested a sample of the policy data used by the actuaries to underlying policy data held on the Society's administration system. • We agreed as part of the new business controls test that application details agree to the members system, ensuring the raw policy data is accurately recorded.	Overall, based on the assumptions and methodology used at 31 December 2018, we consider the technical provisions recognised by the Society within its financial statements to be reasonable.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We consider materiality to be the magnitude by which misstatements, including omissions, could change or influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements. Importantly, we also take into account the nature of identified misstatements and the particular circumstances of their occurrence when evaluating their effect on the financial statements as a whole, and so misstatements below these levels will not necessarily be evaluated as immaterial.

We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgement, we determined materiality for the financial statements as whole to be £394,000 (2017: £400,000). The same materiality has been applied to the Group and Society financial statements. 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 1.7% of this number.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at £295,500 (2017: £300,000) which represents 75% (2017: 75%) of the above materiality level.

We have agreed with the Audit Committee that we shall report to them any misstatements in excess of £19,750 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

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

An overview of the scope of the audit

The audit of the Group financial statements includes the audit of the Society and its subsidiary, Financial Advice Network Limited. For Group reporting purposes, the subsidiary was considered immaterial and hence there was only one significant component. The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed external actuarial experts.

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

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, PRA and FCA rules, FRS 102 and FRS 103. We obtained our understanding through internal and external training, the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

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

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

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the 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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 17 - the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 19 to 21 - the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.; or
- Directors' statement of compliance with the UK Corporate Governance Code - the parts of the directors' statement relating to the Group and Society's compliance with the UK Corporate Governance Code containing provisions that would, for a company subject to the Listing Rules of the Financial Conduct Authority, be specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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

Opinions on other matters prescribed by the Friendly Societies Act 1992

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

Matters on which we are required to report by exception

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

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

Respective responsibilities of directors

As explained more fully in the directors' responsibilities statement, set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other matters which we are required to address

We were appointed by the Audit Committee on 2 September 2010. The period of total uninterrupted engagement including previous renewals and reappointments of the firm within the network is 9 years.

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

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

Use of our report

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

Alexander Barnes

Alexander Barnes
Senior Statutory Auditor
8th April 2019

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

Society Statement Of Comprehensive Income for the year ended 31 December 2018

INCOME	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Technical account - Long term business					
Earned premiums					
Gross premiums written	8	18,780		14,173	
Outward reinsurance premiums		(3)		(3)	
Net premiums			18,777		14,170
Investment income					
Land and buildings		235		245	
Other investments		1,198		1,229	
(Losses)/Gains on the realisation of investments		(727)		644	
			706		2,118
Unrealised (losses)/gains on investments			(5,438)		6,429
Total technical income			14,045		22,717

Society Statement Of Comprehensive Income for the year ended 31 December 2018

EXPENDITURE	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Claims incurred					
Claims paid - gross amount		10,797		9,088	
Change in the provision for claims		672		98	
			11,469		9,186
Changes in other technical provisions					
Movement on long-term business provision	19	(3,627)		(3,799)	
Movement on provision for Linked Liabilities Investment Contracts	19	(3,602)		3,678	
			(7,229)		(121)
Other expenditure **Net operating expenses**					
Other operating expenses	9	10,614		9,214	
Investment expenses		73		41	
			10,687		9,255
Total technical expenditure			14,927		18,320
(Deficit)/Excess of income over expenditure			(882)		4,397
Transfer from/(to) Fund for Future Appropriations	18		882		(4,397)
Balance on technical account - long term business			-		-
Other comprehensive income: Items that will not be reclassified to technical account					
Actuarial (loss)/gain on pension scheme	21		(293)		112
Transfer from/(to) Fund for Future Appropriations	18		293		(112)
Total other comprehensive income for the year			-		-

All income and expenditure relates to continuing operations of the Society.

The attached notes on pages 38 to 60 form part of these financial statements.

Group Statement of Comprehensive Income for year ended 31 December 2018

INCOME	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Technical account - long term business					
Earned premiums					
Gross premiums written	8	18,780		14,173	
Outward reinsurance premiums		(3)		(3)	
Net Premiums			18,777		14,170
Investment income					
Land and buildings		235		245	
Other investments		1,159		1,173	
(Losses)/Gains on the realisation of Investments		(727)		644	
			667		2,062
Unrealised (losses)/gains on investments			(5,438)		6,429
Other technical income	2		396		299
Total technical income			**14,402**		**22,960**

Group Statement of Comprehensive Income for year ended 31 December 2018

EXPENDITURE	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Claims incurred					
Claims paid - gross amount		10,797		9,088	
Change in the provision for claims		672		98	
			11,469		9,186
Changes in other technical provisions					
Movement on long-term business provision	19	(3,627)		(3,799)	
Movement on provision for Linked Liabilities Investment Contracts	19	(3,602)		3,678	
			(7,229)		(121)
Other expenditure **Net operating expenses**					
Other operating expenses	9	10,614		9,214	
Investment expenses		73		41	
			10,687		9,255
Other technical charges	2		343		199
Tax on other technical net income	12		2		-
Total technical expenditure			15,272		18,519
(Deficit)/Excess of income over expenditure			(870)		4,441
Transfer from/(to) Fund for Future Appropriations	18		870		(4,441)
Balance on technical account - long term business			-		-
Other comprehensive income: **Items that will not be reclassified to technical account**					
Actuarial (loss)/gain on pension scheme	21		(293)		112
Transfer from/(to) Fund for Future Appropriations	18		293		(112)
Total other comprehensive income for the year			-		-

All income and expenditure relates to continuing operations of the Group.

The attached notes on pages 38 to 60 form part of these financial statements.

Society Statement of Financial Position as at 31 December 2018

ASSETS	Notes	2018 £'000	2018 £'000	Restated 2017 £'000	Restated 2017 £'000
Investments					
Land and buildings	13		1,881		1,803
Investment in Subsidiary	13		500		500
Investment in Associate	13		1,175		800
Other Financial Investments at fair value	13	34,675		41,616	
Assets Held to Cover Investment Liabilities	13	32,364		35,715	
			67,039		77,331
			70,595		**80,434**
Debtors: amounts due within one year					
Debtors arising out of direct insurance operations with members	14	29		23	
Other debtors	14	667		207	
Debtors: amounts receivable after more than one year					
Loan to Associate	15	2,313		205	
			3,009		435
Other assets					
Tangible assets	16	482		139	
Intangible assets	17	295		255	
Cash at bank and in hand		1,020		630	
			1,797		1,024
Prepayments and accrued income					
Other prepayments and accrued income			335		330
Long Term Business Provision for protection benefit	19		38,679		33,422
Total Assets			**114,415**		**115,645**

Society Statement of Financial Position as at 31 December 2018

LIABILITIES	Notes	2018 £'000	2018 £'000	Restated 2017 £'000	Restated 2017 £'000
Fund for future appropriations	18	23,666		24,841	
			23,666		24,841
Technical provisions					
Long Term Business Provision for benefits excluding protection	19	55,019		53,389	
Technical provisions for linked liabilities - investment contracts	19	32,364		35,715	
Claims outstanding		1,012		342	
			88,395		89,446
Creditors					
Creditors arising from direct insurance operations with members		49		57	
Other creditors, including taxation and social security		909		333	
			958		390
Accruals and deferred income			861		696
Pension scheme liability	21		535		272
Total Liabilities			**114,415**		**115,645**

The attached notes on pages 38 to 60 form part of these financial statements.

Group Statement of Financial Position as at 31 December 2018

ASSETS	Notes	2018 £'000	2018 £'000	Restated 2017 £'000	Restated 2017 £'000
Investments					
Land and buildings	13		1,881		1,803
Investment in Associate	13		1,175		800
Other Financial Investments at fair value	13	34,675		41,616	
Assets Held to Cover Investment Liabilities	13	32,364		35,715	
			67,039		77,331
			70,095		**79,934**
Debtors: amounts due within one year					
Debtors arising out of direct insurance operations with members	14	29		23	
Other debtors	14	450		267	
Debtors: amounts receivable after more than one year					
Loan to Associate	15	2,313		205	
			2,792		495
Other assets					
Tangible assets	16	482		139	
Intangible assets	17	340		330	
Cash at bank and in hand		1,784		1,144	
			2,606		1,613
Prepayments and accrued income					
Total prepayments and accrued income			348		343
Long Term Business Provision for protection benefit	19		38,679		33,422
Total Assets			**114,520**		**115,807**

Group Statement of Financial Position as at 31 December 2018

LIABILITIES	Notes	2018 £'000	2018 £'000	Restated 2017 £'000	Restated 2017 £'000
Fund for future appropriations	18	23,662		24,825	
			23,662		24,825
Technical provisions					
Long Term Business Provision for benefits excluding protection	19	55,019		53,389	
Technical provisions for linked liabilities - investment contracts	19	32,364		35,715	
Claims outstanding		1,012		342	
			88,395		89,446
Creditors					
Creditors arising from direct insurance operations with members		49		57	
Other creditors, including taxation and social security		1,003		511	
			1,052		568
Accruals and deferred income			876		696
Pension scheme liability	21		535		272
Total Liabilities			**114,520**		**115,807**

The attached notes on pages 38 to 60 form part of these financial statements.

The financial statements on pages 30 to 60 have been approved by the Board on 2nd April 2019.

J Hindle Chairman

A M O'Dea Chief Executive Officer

Notes to the Financial Statements For the year ended 31 December 2018

1. General Information

Shepherds Friendly is a trading name of The Shepherds Friendly Society Limited ("the Society") which is an incorporated friendly society under The Friendly Societies Act 1992 Registered No. 240F. The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It is incorporated in the United Kingdom, and its principal place of business is its registered office: Haw Bank House, High Street, Cheadle, SK8 1AL.

The Society has one wholly owned subsidiary, together "the Group". The principal activities of each company in the Group are detailed in the Directors' report on page 14.

2. Significant Accounting Policies

(a) Basis of Preparation

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

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

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

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the accounting policies selected for use by the Group and the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

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

The Group has changed the presentation of its long term business provision. The resultant changes and restatements are set out in note 4.

(b) Going Concern

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

(c) Basis of Consolidation

A subsidiary is an entity controlled by the Group by virtue of the Society owning more than 50% of the voting power of the entity.

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

The financial statements of the Group comprise the assets, liabilities, and income and expenditure account transactions of the Society and its subsidiary. The activities of the Society and its subsidiary are accounted for in the Statement of Comprehensive Income. 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.

(d) Contract Classification

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

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

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

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

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

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

(e) Earned Premiums

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

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

(f) Investment Income

Investment income includes dividends, interest, rents and realised 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.

(g) Claims and Benefits

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

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

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for expected value of recoveries. However it is likely that the final outcome will prove to be different from the original liability established. Provisions are adjusted at the Statement of Financial Position date to represent an estimate of the expected outcome.

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.

(h) Other Technical Income and Technical Charges

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

(i) Taxation

The Board has considered its attitude to taxation and the strategies in place in this respect. As a Friendly Society, the Society is not subject to corporation tax on any surplus it generates for its members. The Society is though subject to policyholder tax on the net investment return generated on part of its business, which is levied at the income tax rate of 20%.

Taxes are provided for in respect of the taxable element in the Group's business at tax rates enacted or substantively enacted at the date of the Statement of Financial Position. As a registered Friendly Society, the Society is only subject to tax on part of its life and endowment business.

(j) 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 Group'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.

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

Notes to the Financial Statements
For the year ended 31 December 2018

(k) Financial Investments

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

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

(l) Investment in Associates

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

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

(m) Investment in Subsidiary

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

(n) Tangible and Intangible Fixed Assets

Tangible and Intangible assets are capitalised and depreciated/amortised by equal annual installments over their estimated useful life. The principal rates used

for this purpose are as follows:

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

(o) Loan to Associate

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

(p) Impairment of Assets

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

(q) Cash and Cash Equivalents

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

(r) Technical Provision

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

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

Provision for Linked Liabilities
The provision is equal to the value of the assets to which the contracts are linked.

(s) Pensions

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

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

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

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

Notes to the Financial Statements
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(t) Fund for Future Appropriations

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

(u) Leases

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

(v) Foreign Currencies

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

3. Critical Accounting Judgements and Estimates

(a) Judgements

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

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

(b) Estimates

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

(i) Valuation of Investment 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.

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

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

(iv) Long term business provisions
The valuation of participating contract liabilities and insurance liabilities are based upon assumptions 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 European Insurance and Occupational Pensions Authority (EIOPA) specific risk-free rates, adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

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

(v) Pension scheme liabilities
Pension plan liabilities are based on appropriate valuation assumptions. These assumptions include an appropriate discount rate, the levels of salary escalation, price inflation and mortality rates. Further details are contained in note 21 to these financial statements.

4. Accounting policy change - presentation of long term business provision

(a) Overview

Under the previous accounting policy, the value of insurance contracts that are expected to generate a net future cash inflow offset the liabilities on contracts that are expected to generate a net future cash outflow. As the Society now acquires significant volume of insurance contracts that are expected to generate a net future cash inflow, the Society has reviewed its accounting policy for the long term business provision. The conclusion of this review was that insurance contracts that are expected to generate a net future cash inflow are now presented separately as an asset. Insurance contracts that generate a net future cash outflow will continue to be presented as a liability. On the Statement of Financial Position, the change has resulted in the Society presenting a year on year increase in the value of its liabilities which is now consistent with the growth in the number of with-profit policies managed by the Society. And, the increased value of the long-term business provision presented as liabilities now also improves understandability of the emerging risk around asset share coverage described in the 'Summary of material risk' section of the Risk Management Report on page 10. For these reasons, the change is considered to provide more relevant information about the financial position of the Society and the Group. The revised accounting policy is disclosed in note 2(r).

(b) Impact of change

There is no change in the methodology used to measure the insurance provisions and therefore there are no changes to the Fund for Future Appropriations.The Group and Society have restated the Statement of Financial Position as at 31 December 2017 as required under FRS102. The change does not affect the Statement of Comprehensive Income and therefore it has not been restated. The table below shows the restatement of the Statement of Financial Position as a result of the change in presentation.

	Group as at 31 December 2017			Society as at 31 December 2017		
	As previously reported £'000	Impact of change £'000	Restated £'000	As previously reported £'000	Impact of change £'000	Restated £'000
Long term business provision for protection benefit	-	33,422	33,422	-	33,422	33,422
Other assets not impacted by the change	82,385	-	82,385	82,223	-	82,223
Total Assets	**82,385**	**33,422**	**115,807**	**82,223**	**33,422**	**115,645**
Long term business provision for benefits excluding protection	19,967	33,422	53,389	19,967	33,422	53,389
Other liabilities not impacted by the change	62,418	-	62,418	62,256	-	62,256
Total Liabilities	**82,385**	**33,422**	**115,807**	**82,223**	**33,422**	**115,645**

5. Capital Management

Only the Society is subject to externally imposed capital requirements. The Society sets to create value for its members by investing in the development of the business whilst maintaining an appropriate level of capital available.

(a) Policies and Objectives

The Society's key management objectives are:

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

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

(b) Capital Statement

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

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.

	2018 £'000	2017 £'000
Fund for Future Appropriations	23,666	24,841
Regulatory Solvency Adjustments	(891)	(646)
Total available capital resources	**22,775**	**24,195**

(c) Measurement and Monitoring of Capital

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

(d) Analysis of Capital Change

There has been a decrease in the available capital resources from 31 December 2017 to 31 December 2018. This is predominantly because of lower investment returns than allowed for within the valuation assumptions. An analysis of the change is set out below:

	2018 £'000	2017 £'000
Capital resources at 1 January	**24,195**	**20,271**
Changes in available capital due to:		
Policy cashflows	(936)	372
Changes to methodology	(1,156)	(1,318)
Changes to lapse assumptions	(355)	(2,764)
Other assumption changes	4,623	(612)
Investment gains	(6,955)	6,735
Investment return credited to asset shares	2,398	(7,093)
New business	6,081	7,143
Change in risk margin	(3,734)	2,155
Change in pension scheme	(263)	170
Change in admissibility	(366)	(572)
Other	(757)	(292)
Capital resources 31 December 2017	**22,775**	**24,195**

6. Risk Management and Control

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

(a) Underlying Approach to Risk Management

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

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

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

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

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

(i) New Business Risks
The Group 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 Group has continued to monitor new business levels. A stagnation in demand and increasing competition raise the risk of writing too little business. The Group's strategy is to maintain its diversified product range, selling to existing members and developing new routes to market to mitigate this risk.

(ii) 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 Group 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 Group manages them in a manner of ways, such as in-depth claims management, negotiated early settlements, product withdrawal and revised pricing for replacement products.

The product range of the Group 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 Group strives to deliver great service to its policyholders, to encourage high levels of policy retention.

Note 19 sets out the Technical provisions and the changes over the year.

(iii) Financial Risks (market risk, credit risk, liquidity risk)
Financial risks vary in nature. The Group and the Society is exposed to a range of financial risks through its financial assets, financial liabilities and insurance liabilities.

The most important components of this financial risk are market risks which include equity price risk, property valuation risk, interest rate risk, currency exchange risk and credit spread risk. The Group and 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.

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

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

	2018 Cash flows (undiscounted)					
Group & Society	0-5 years £'000	6-10 years £'000	11-15 years £'000	16-20 years £'000	>20 years £'000	Total £'000
Long term business provision	(1,688)	(4,586)	2,551	3,666	(779)	(836)
Linked liabilities	(2,138)	(30,186)	(40)	-	-	(32,364)
Net cash (outflow)/inflow	(3,826)	(34,772)	2,511	3,666	(779)	(33,200)

	2017 Cash flows (undiscounted)					
Group & Society	0-5 years £'000	6-10 years £'000	11-15 years £'000	16-20 years £'000	>20 years £'000	Total £'000
Long term business provision	(8,168)	(1,514)	(728)	1,977	(5,011)	(13,444)
Linked liabilities	(1,740)	(23,684)	(10,291)	-	-	(35,715)
Net cash (outflow)/inflow	(9,908)	(25,198)	(11,019)	1,977	(5,011)	(49,159)

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

The Board and the Board Risk Committee oversees investment activity, monitors the investment manager's performance, and ensures that the investment policy and asset allocations are adhered to. The policy and investment strategy are reviewed and approved by the Board and the Chief Actuary on an annual basis. The Group manages its assets for the benefit of its members. The asset allocation policy, counterparty limits and other controls balance the risks against the rewards. The investment manager manages much of the Group's investment portfolio, and ensures that these assets are managed in line with the Investment Policy.

(a) Equity Price Risk
Holdings in equities are by their nature subject to market movement. In order to mitigate this risk, the Group employs LGT Vestra LLP as an external investment manager. In addition, the acceptable level of equity holdings for the Group'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 Group 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 Group'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 Group and the Society have a number of directly held equity and investment funds that are quoted in foreign currencies. All other investments are held in sterling. As only a relatively small proportion of its investments are held in foreign currencies, exchange rate risk is immaterial to the Group and the Society.

The Group's and Society's investments held in foreign currencies are listed below:

	2018 £'000	2017 £'000
Market value of investments quoted in:		
US Dollar	4,860	3,929
Total	**4,860**	**3,929**

(e) Credit Risk

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

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

	Group and Society	
	2018 £'000	2017 £'000
British Government Stock		
AA	726	1,641
Corporate Bond		
AAA	-	-
AA	1,157	1,063
A	300	1,801
BBB	5,632	8,639
Below BBB	156	683
Not rated	-	444
	7,245	12,630
	7,971	14,271

The terms of the Group'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.

Counterparty Default Risk
Counterparty default risk is the risk of loss incurred by the Group 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 Group's counterparties in meeting their financial obligations.

In 2018, the Group's exposure to counterparty default risk is mostly in respect of trade and other debtors of £479,000 (2017: £290,000), and the loan to Associate of £2,313,000 (2017: £205,000). As at 31 December 2018, trade and other debtors that were past due but not yet impaired was £95,000 (2017: £52,000). No loan amounts were past due as at the date of the Statement of Financial Position.

The cash deposits are spread between LGT Vestra Wealth management and a number of high street banks to reduce exposure to counterparty default risk.

During the year, the Group 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 because it is immaterial to the Group and the Society.

Notes to the Financial Statements
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(vi) 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 2018 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.

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

Variable	Change in Variable %	2018 Change in Available Capital and Profit £000s	2017 Change in Available Capital and Profit £000s
Insurance risks			
Change in mortality	+10%	(24)	(1,324)
Change in morbidity (%CMIR12)	+25% inceptions and -20% recoveries	(9,897)	(7,726)
Change in expenses	+10%	(2,386)	(3,056)
Change in lapses	+10%	(3,973)	(3,174)
Change in lapses	-10%	7,338	6,886
Market risks			
Change in fixed interest yields	EIOPA interest rate up	(4,599)	(3,563)
Change in fixed interest yields	EIPOPA interest rate down	4,390	3,152
Fall in equity values	-10%	(1,552)	(1,104)
Fall in property values	-10%	(49)	(46)

7. Long Term Insurance Liability Valuation Assumptions

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

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

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

Business Type	Valuation Method
Life Business	
Regular premium life	Asset share plus cost of guarantee
Unitised With-Profits pension	Reserves equal to the value of the units
With-profits Bond (series I and II)	Asset share plus cost of guarantee
Over 50s and Other non-profit life business	Gross premium method of valuation
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 as discounted face value and sickness benefits valued using an inception/recovery average weeks claim approach. Reserves for the closed book of Premier Protect Business are calculated using individual case estimates.

Discount Rate of Interest

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

Expenses

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

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

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

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

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

Mortality

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

	2018	2017
Life Business excl. Over 50's	65% A6770	65% A6770
Over 50's	200% AXC00	200% AXC00
Income Protection	40% A6770	40% A6770

Morbidity

The following table sets out the sickness assumptions for each class of Income Protection business at the end of 2018 and those used at the end of 2017. Rates are set by reference to 100% inceptions and recoveries of CMIR12 tables.

	2018	2017
Adult Holloway	25%	25%
Young Holloway	10%	10%
SIPP Holloway	130%	130%
Non-profit Income Protection	40%	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.

8. Earned Premium Analysis

All premiums are written on a direct basis and relate to individual business.

Society and Group	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Regular Premiums				
Insurance contracts	5,693		3,983	
Participating investment contracts	7,393		5,436	
		13,086		9,419
Single Premiums				
Insurance contracts	-		-	
Participating investment contracts	5,694		4,754	
		5,694		4,754
Gross premium written		18,780		14,173
Reinsurance		(3)		(3)
Earned Premiums		18,777		14,170
Of which earned in:				
United Kingdom		18,765		14,157
Republic of Ireland		12		13

Society and Group	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Annualised new business written				
Single Premium		566		475
Regular Premium		7,306		5,778
		7,872		6,253

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

Premiums of £351,000 in 2018 (2017: £392,000) relating to investment contracts are not recognised in the Technical Account but recorded as contributions to the investment contract liabilities in the Statement of Financial Position.

Notes to the Financial Statements
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9. Society and Group Net Operating Expenses

	Society and Group 2018 £'000	Society and Group 2017 £'000
Acquisition costs	8,303	6,879
Administration expenses	2,311	2,335
	10,614	9,214
Also included in the operating expenses are:		
Auditor's remuneration for Audit services	63	53
	63	53

The cost of the audit services for the subsidiary of £6,000 (2017: £6,000) has been included in Other Technical Charges.

10. Staff Costs

The average monthly number of persons employed by the Society in the year was as follows:	2018	2017
Board Members	8	8
Staff - Acquisition	30	24
Staff - Administration	21	17
	59	49

The aggregate staff payroll costs were as follows:	2018 £'000	2017 £'000
Wages and salaries	2,482	2,053
Social security costs	263	217
Pension costs	425	279
	3,170	2,549

Details of Directors' emoluments are contained in the Directors' Remuneration Report on pages 24 and 25.

Notes to the Financial Statements
For the year ended 31 December 2018

11. Related Party Transactions

Transactions with group undertakings
Advantage has been taken of the exemption under FRS 102 not to disclose transactions with entities that are part of the Society's group. 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.

Appointed Actuary
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 2018 and the prior year.
2. Neither Mr Critchlow, his wife or children had any financial interest in any transaction with the Society at any time during 2018 and the prior year, 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 £332,556 inclusive of VAT (2017: £312,450). No other benefits, emoluments, pensions or compensation were paid.
4. Mr Critchlow did not receive, and will not receive, any other financial benefit.

12. Taxation

	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
Corporation Tax				
Policyholdertax charge/ (credit)	3	-	-	-
Deferred Tax				
Timing differences, origination and reversal	(1)	-	-	-
Total tax charge/(credit)	2	-	-	-

The tax charge for the group is £2,000 (2017: £nil).

The applicable UK corporation tax rate is 19% for the subsidiaries (2017: 19.25%), due to the reduction of the UK corporation tax rate from 20% to 19% which was effective from 1 April 2017. The Finance Bill 2017 substantively enacted on 6 September 2017 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% (2017: 20%). There is a deferred tax asset in the Group for Financial Advice Network Limited in respect of fixed asset timing differences. As at 31 December 2018, the Group did not hold any provisions for uncertain tax positions (2017: £nil).

Reconciliation of Current Year Tax Charge	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
Profit/ (loss) on ordinary activities	(1,163)	4,553	(1,175)	4,509
Result for the Year	(1,163)	4,553	(1,175)	4,509
Tax on result	(221)	910	(223)	902
Factors affecting tax charge:				
Accounting profit not subject to policyholder tax	224	(901)	223	(902)
Accelerated capital allowances	4	3	-	-
Movement in unprovided deferred tax asset	(5)	(12)	-	-
Permanent differences	-	-	-	-
Current corporation tax charge for the year	2	-	-	-

The tax charge in respect of the Group is for Financial Advice Network Limited. The Society has no tax charge in 2018 or prior year due to the losses the Society is carrying forward in respect of excess management expenses. These losses are available to be used against future profits of the Society. Arising from these losses, the Society has an unrecognised deferred tax asset on deductible expenses carried forward of £769,000 (2017: £613,000). It is considered unlikely that these losses will be used and therefore it continues not to be recognised.

13. Investments

Land and buildings (Society & Group)	Cost 2018 £'000	Market Valuation 2018 £'000	Cost 2017 £'000	Market Valuation 2017 £'000
As at 1 January	1,597	1,803	1,597	1,803
Additions	-	-	-	-
Revaluation in the year	-	78	-	-
	1,597	1,881	1,597	1,803

A full valuation of investment properties is performed at least once every three to five years. The fair value is determined using an open market, existing use basis. In between the full valuations, a 'desktop' valuation is undertaken. A desktop valuation was performed as at 31 December 2018 by Matthews and Goodman LLP, Chartered Surveyors.

Other financial investments (Society & Group)	Cost 2018 £'000	Market Valuation 2018 £'000	Cost 2017 £'000	Market Valuation 2017 £'000
Assets held to cover Investment Liabilities	22,390	32,364	22,575	35,715
UK and overseas listed equities	22,807	23,322	20,676	23,913
UK and overseas listed fixed interest securities	8,966	8,917	13,632	14,262
UK and overseas listed Property Investment Fund	2,220	2,436	3,016	3,441
	56,383	67,039	59,899	77,331

Investment in Subsidiary

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

	Shares in Subsidiary £'000
As at 1 January and 31 December 2018	500

Investment In Associate

The Society owns 24% of the ordinary shares of Life's Great Group Limited as at 31 December 2018 and 31 December 2017. 316 C Ordinary shares of £1 each were acquired on 4 December 2017 for a consideration of £800,000 (£2,531.65 per share). The fair value as at 31 December 2018 is based on a recent arm's length transaction.

	Cost 2018 £'000	Market Valuation 2018 £'000	Cost 2017 £'000	Market Valuation 2017 £'000
As at 1 January	800	800	800	800
Additions	-	-	-	-
Fair value gains through profit or loss	-	375	-	-
As at 31 December	800	1,175	800	800

Notes to the Financial Statements For the year ended 31 December 2018

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

Financial Assets	Group and Society 2018			Group and Society 2017 - Restated		
	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	18,230	7,524	-	13,547	13,807	-
Debt securities and other fixed income	7,971	950	-	14,012	-	250
Assets held to cover linked liabilities	32,351	13	-	35,715	-	-
Investment in associate	-	-	1,175	-	-	800
	58,552	8,487	1,175	63,274	13,807	1,050

Prior year comparatives have been restated to include the fair value classification for the investment in associate.

14. Debtors: Amounts receivable within one year

	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
Debtors arising out of direct insurance operations	29	23	29	23
Other debtors	449	267	407	207
Amounts owed by group undertakings	-	-	260	-
Deferred tax asset	1	-	-	-
	479	290	696	230

In prior year, amounts owed by group undertakings to the Society of £131,000 has been included in other creditors.

15. Debtors: Amounts receivable after more than one year.

	Group and Society	
	2018 £'000	2017 £'000
Loan to Associate	2,313	205
	2,313	205

During 2018, loans of £2,000,000 were made to the associate of the Group, Life's Great Group Limited. No loans were repaid in the year. In the prior year, loans of £650k were made of which £450k were repaid in the same year.

As at 31 December 2018, the loan outstanding, including compounded interest, was £2,290,000 (2017: £205,000) and the interest receivable was £23,000 (2017: £nil).

After the date of the Statement of Financial Position, the loan outstanding and interest receivable have been converted to preference shares held in Life's Great Group Limited (see note 22).

Notes to the Financial Statements
For the year ended 31 December 2018

16. Tangible assets

	Society Property Improvement £'000	Society Equipment & Fixtures & Furniture £'000	Society Total £'000	Group Total £'000
Cost				
At 1 January 2018	91	207	298	310
Additions	381	89	470	470
Disposals	(61)	(55)	(116)	(116)
At 31 December 2018	411	241	652	664
Depreciation				
At 1 January 2018	18	141	159	171
Provided for in the year	12	31	43	43
Disposals	(16)	(16)	(32)	(32)
At 31 December 2018	14	156	170	182
Net book value				
31 December 2018	397	85	482	482
31 December 2017	73	66	139	139

There are no assets acquired using a finance lease arrangement (2017: £nil).

17. Intangible assets

	Society Software £'000	Society Total £'000	Group Total £'000
Cost			
At 1 January 2018	950	950	1,217
Additions	228	228	228
Disposals	-	-	-
At 31 December 2018	1,178	1,178	1,445
Depreciation			
At 1 January 2018	695	695	887
Provided for in the year	188	188	218
Disposals	-	-	-
At 31 December 2018	883	883	1,105
Net book value			
31 December 2018	295	295	340
31 December 2017	255	255	330

18. Movements in Fund for Future Appropriations

Fund for Future appropriations (Society)	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Balance at 1 January		24,841		20,332
Transfer (to)/from Technical Account	(882)		4,397	
Transfer (to)/from Other Comprehensive Income	(293)		112	
		(1,175)		4,509
Balance at 31 December (Society)		**23,666**		**24,841**

Fund for Future appropriations (Group)	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Balance at 1 January		24,825		20,271
Transfer (to)/from Technical Account	(870)		4,441	
Transfer (to)/from Other Comprehensive Income	(293)		112	
		(1,163)		4,553
Other		-		1
Balance at 31 December (Group)		**23,662**		**24,825**

19. Long Term Business Provision and Technical Provision for Linked Liabilities (Society & Group)

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Balance at 1 January		55,682		55,582
Movement on linked liabilities	(3,602)		3,678	
Movement on long term business	(3,627)		(3,799)	
Contributions to/(Withdrawals from) linked liabilities	251		221	
		(6,978)		100
Net liability as at 31 December (Society & Group)		**48,704**		**55,682**

	2018 £'000	2017 £'000
Balance at 31 December comprises:		
Long Term Business Provision for benefits excluding protection	55,019	53,389
Technical Provision for Linked Liabilities	32,364	35,715
	87,383	89,104
Long Term Business Provision for protection benefit	(38,679)	(33,422)
Net liability as at 31 December (Society & Group)	**48,704**	**55,682**

Notes to the Financial Statements
For the year ended 31 December 2018

20. Operating Rent & Lease Commitments

Total payable under non-cancellable operating leases are as follows:	Group and Society	
	2018 £'000	2017 £'000
Amounts falling due < 1 year	96	60
Amounts falling due 2 - 5 years	378	238
Amounts falling due 5 years +	1,549	224
	2,023	522

In 2018, the Group agreed a new lease for its Head Office. The commitment under the previous lease arrangement for the Head Office has been fully extinguished.

Other operating expenses in the Statement of Comprehensive Income includes operating lease payments of £39,000 for 2018 (2017: £88,000).

21. Pension Scheme Obligations (Society and Group)

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

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

There are two categories of pension scheme members:

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

• Pensioner members: members in receipt of a pension.

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

Actuarial assumptions	Year ending 31 December 2018	Year ending 31 December 2017
Discount Rate	2.70% pa	2.60% pa
Retail price inflation	3.20% pa	3.10% pa
Consumer price inflation	2.00% pa	1.90% pa
Salary Increases	n/a	1.90% pa
Rate of increases of pensions in payment		
- CPI max 3%	1.80% pa	1.70% pa
- RPI max 5%	3.10% pa	3.00% pa
- RPI max 2.5%	2.30% pa	2.30% pa
Rate of increase for deferred pensioners	2.00% pa	1.90% pa

Demographic assumptions	Year ending 31 December 2018	Year ending 31 December 2017
Mortality (Pre retirement)	As per post retirement	As per post retirement
Mortality (Post retirement)	S2PA CMI_2016_M/F [1.00%] (yob)	S2PA CMI_2016_M/F [1.00%] (yob)

Life Expectations	2018		2017	
	Male	Female	Male	Female
Life expectancy for an individual aged 65 in the year	21.8 years	23.7 years	21.9 years	23.7 years
Life expectancy at age 65 for an individual aged 45 in the year	22.8 years	24.9 years	23.0 years	25.0 years

(b) Assets
The assets of the Scheme are invested as follows:

Asset Class	Year ending 31 December 2018		Year ending 31 December 2017	
	Market Value £'000	% of total Scheme assets	Market Value £'000	% of total Scheme assets
Bonds	367	10%	1,087	27%
Gilts	816	22%	819	21%
Cash	41	1%	109	3%
Diversified Growth Funds	1,615	44%	1,941	49%
Diversified Credit Funds	846	23%	-	0%
Total	3,685	100%	3,956	100%

The actual return on assets over year was loss of £104,000 (2017: gain of £188,000).

(c) Reconciliation to the Statement of Financial Position

	Year ending 31 December 2018 £'000	Year ending 31 December 2017 £'000
Market Value of assets	3,685	3,956
Present Value of liabilities	(4,220)	(4,228)
Surplus/(Deficit) in the scheme	(535)	(272)
Irrecoverable Surplus	-	-
Pension asset/(liability) recognised in the Statement of Financial Position before allowance for deferred tax	**(535)**	**(272)**

(d) Reconciliation of Scheme Assets and Defined Benefit Obligation

	Assets £'000	DBO £'000	Total £'000
As at 1 January 2018	3,956	(4,228)	(272)
Benefits paid	(230)	230	-
Employer contributions	63	-	63
Member contributions	-	-	-
Current service cost	-	-	-
Administration expenses	-	-	-
Past Service cost	-	(27)	(27)
Settlements	-	-	-
Business combination/ bulk transfers	-	-	-
Interest income/(cost)	101	(107)	(6)
Remeasurement gains/(losses):			
- Actuarial gains/(losses): experience differing from that assumed	-	(128)	(128)
- Actuarial gains/(losses): changes in assumptions	-	40	40
- Return on plan assets excluding interest income	(205)	-	(205)
As at 31 December 2018	**3,685**	**(4,220)**	**(535)**

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

Technical Account:	Year ending 31 December 2018 £'000	Year ending 31 December 2017 £'000
Service Cost comprising:		
Current service cost	-	26
Administration expenses	-	-
Past service cost	27	-
(Gain)/Loss on business combinations	-	-
(Gain)/Loss on settlements	-	-
Total Service Cost	27	26
Net Interest	6	12
Amount Charged/(Credited) to Technical Account	**33**	**38**
Other comprehensive income:		
Remeasurement of the net defined benefit liability/(asset):		
Actuarial gains/(losses) on liabilities	(88)	33
Return on assets excluding amount included in net interest	(205)	79
Limit on recognition of assets excluding amounts included in net interest	-	-
(Loss)/gain recognised in Other Comprehensive Income	**(293)**	**112**
Total amount charged/(credited) to Statement of Comprehensive Income	**326**	**(74)**

(f) Future Funding Obligation

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

Following the finalisation of the latest valuation with an effective date of 5 April 2018, the Society agreed to make contributions to the Scheme of £75,000 pa from 1 April 2019 until February 2021.

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

On 8 February 2019, the Group's and Society's equity shareholding in Life's Great Group Limited was reduced to below 20% and would no longer meet the recognition criteria as an investment in an associate. The loan outstanding and interest receivable from Life's Great Group as at 8 February 2019 of £2,337,544 were converted to 233,754,408 preference shares with an aggregate value of £0.01 per share. As the transaction was agreed after the date of the Statement of Financial Position, there is no impact on the classification of the loan or the investment in the Statement of Financial Position as at 31 December 2018.

On 8 March 2019, the Society had signed a reinsurance agreement for its Over 50s business with a commencement date of 1 October 2018. As the agreement was signed after the date of the Statement of Financial Position, the transaction was a non-adjusting event for the year ending 31 December 2018. The reinsurance arrangement will have the impact of reducing the value of the long term business provision as at 31 December 2018 by £107,000.

After the date of the Statement of Financial Position, there has been developing uncertainty around the profitability of the tenant occupying the Group's investment property and hence their ability to meet its contractual rental payments as they fall due. However at the time of signing the accounts, the tenant has continued to fulfil its contractual obligations to the Group and therefore no adjustment has been made to the fair value of the investment property as at 31 December 2018.

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

Valuation methods
Note 7 of the Report and Accounts refers to the assumption that the actuary uses in calculating the Technical provisions. The references are to standard actuarial tables for calculating death and sickness rates.

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

Notes

Shepherds Friendly

Your modern mutual

to make members feel valued

to remain mutual when in our members interests

to provide simple, value for money financial solutions

to be a place where people want to work

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

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