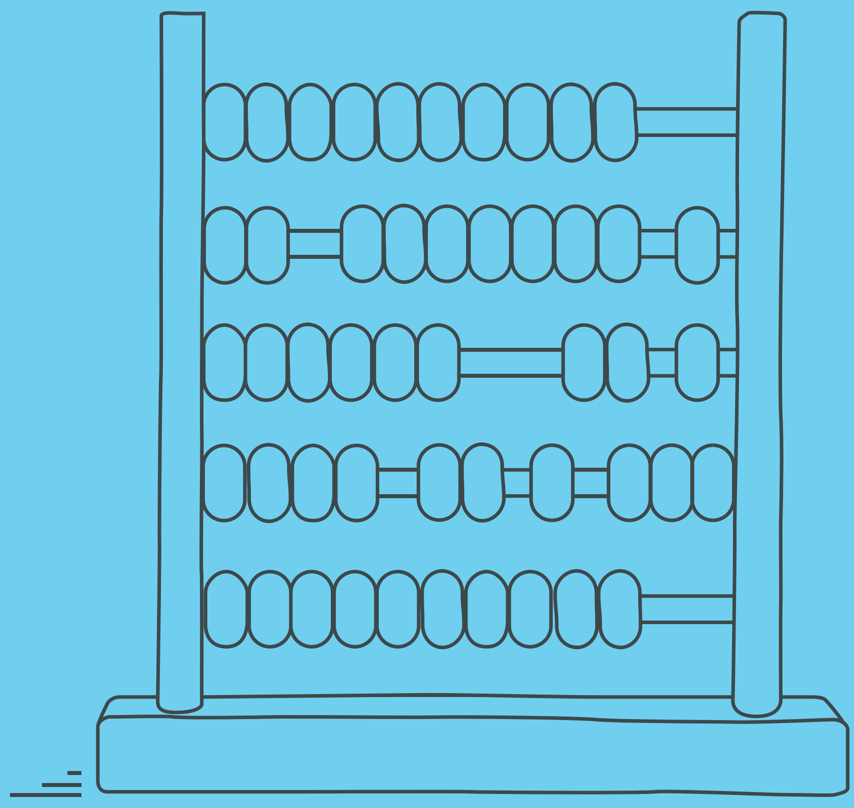
Shepherds Friendly®

Annual Report and Financial Statements

31st December 2020

The Shepherds Friendly Society Limited



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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
Simon Pashby	
Cameron Mills	
Mark Myers	

Executive Directors

Ann-Marie O'Dea	Chief Executive
Nasrin Hossain	Executive Director
Samuel Chivers	Executive Director
Christopher Critchlow	Executive Director (appointed 16 September 2020)

Company Secretary and Registered Office

Tim Robertson
Haw Bank House, High Street, Cheadle SK8 1AL

Chief Actuary

Christopher Critchlow FIA

With-Profits Actuary

Cara Spinks FIA (OAC plc)

External Auditors

BDO LLP
55 Baker Street, Marylebone, London, W1U 7EU

Internal Auditors

Mazars LLP

Tax Advisors

PwC LLP

Bankers

Santander UK PLC

Investment Managers

Royal London Asset Management Limited ("RLAM")
Legal & General Investment Management Ltd ("LGIM")

Property Managers

Matthews and Goodman LLP, Manchester

Shepherds Friendly Society Limited

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.

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

Chairman’s Report

Protecting the long-term interests of our members

2020 has been an extraordinary year for the world and our members. On behalf of the Society, I would like to express our heartfelt sympathies to all our members who have been affected by the virus. The Society, as ever, will continue to be here for our members and to support them in the best way we can during these uncertain times. I would also like to reassure our members that the Society’s liquidity, solvency and operations remain resilient against the continuing uncertainty.

Looking back to the start of Covid-19, the Society was immediately faced with a number of challenges because of the scale of the pandemic. While the social and health impact has been unlike anything most of us have ever experienced, the Society is well prepared for events like these. The strategic focus for the Society has always been on maintaining financial resilience and through its annual risk self-assessment exercise, the Board maintains an understanding of the Society’s principal risks, the financial impact of those risks and the actions that need to be taken to strengthen the Society’s resilience. Some of the actions that had to be taken, such as reviewing pay-outs to with-profit policyholders, have been difficult but always made with the view of fairness, protecting the long-term strength of the Society and balancing the long-term interests and immediate needs of our membership.

An important decision the Board had to make was to protect the well-being of all our staff. Our staff continue to work from home as they have been throughout most of 2020. They have remained committed, more than ever, to look after our members in these very difficult times and deliver the great service we pride ourselves on. Therefore, they have remained secure in their jobs and continued to be paid in full. We continue to invest in our people, technology and innovation to protect their wellbeing and to give the Society the capacity to increase our interaction with members despite having to work from home. The Society has not felt it was necessary to take advantage of available government furlough or loan schemes and has no plans to do so.

Fast forward to today and despite all the uncertainties, the Board and the Executives took positive steps to manage the crisis for the Society and our members. These accomplishments have been reflected in a strong set of financial results and I am pleased that even in these challenging times, we continue to pay annual bonuses to our members. This is a good outcome for our members, sustaining years of positive returns for them and highlighting the benefits of our with-profits products.

Chairman's Report

The success of the Society is a credit to the high level of commitment and dedication of our people. I would like to take this opportunity to thank all my Board Colleagues, the team of Executives and the staff in the Society for their untiring efforts over the last year. I would also like to say how proud we are of our staff and the help and support they have shown to each other and our members.

Finally, I would also like to say thank you to our members for your ongoing support. Your support is so important to all of us. Please stay safe and well.

Joanne Hindle
Chairman

7th April 2021

Chief Executive's Report

2020 business performance

Despite the challenges of 2020, the Society has met its strategic objectives for the year. The Society continued to deliver growth through new members and income levels and we have strengthened our financial resilience. At 31 December 2019, our solvency ratio was 167% and I am pleased to announce that this has increased to 176% at 31 December 2020. This is an excellent outcome given the heightened risk environment that we have seen over 2020.

We, like the financial services industry generally, have had to adapt and make changes to the way we manage the business. These changes have included:

- A transition of the Society's operations and infrastructure to enable our staff to work effectively from home, ensuring that members could continue to be serviced properly;
- Reviewing how we treat our members given the inevitable hardships that Covid-19 created. For example, we looked at how we applied payment or career breaks on protection-based plans so that our members could maintain their policies in times of uncertainty;
- Reviewing the Society's product range and the terms attaching to those products to ensure that they continued to give our members value for money; and
- Reviewing pay-outs to with-profits policyholders in the light of market conditions to ensure the longer-term membership interests of the Society were preserved.

During the year we also continued the innovation journey we have been undertaking in recent years, culminating in the launch of the new Shepherds brand. The new brand truly reflects the Society of today and its aspirations for the future.

Looking forward

The vaccine rollout provides a cause for optimism that we will eventually return to some form of normality. In the nearer future, we expect the risks, uncertainties and challenges to continue and we have reflected this in our 2021 business plan. We will continue to adopt our member-focused growth strategy with financial strength and resilience at its core, in line with our three-year strategic plan. We will innovate to further strengthen our financial and operational resilience, building on our experience over 2020. We continue to operate effectively and I would like to reassure our members the Society's liquidity, operational capacity and financial strength will be sufficient to withstand the Covid-19 effects that remain.

2020 has highlighted the importance of the extensive work we do annually around assessing and managing our key and emerging risks. Alongside Covid-19, climate change will be an increasing area of focus for the Society and we will consider our approach to this in our internal processes, product offerings and outsourced services. We will continue to strengthen our risk functions to ensure appropriate controls are in place and ensuring we have continued resilience.

Ann-Marie O'Dea
Chief Executive
7th April 2021

Financial Performance Report

Overview

Shepherds Friendly has increased the value of its assets under management over 2020. The Group's total assets increased from £138.7m to £156.0m in line with the growth in new members and income levels. Financial performance has been enhanced by managing the impact of insurance risks and expenses in 2020. These have contributed to an increase in the Group's fund for future appropriations from £17.2m to £20.7m and therefore increasing solvency ratio from 167% to 176% in what has been a challenging year.

The Key Performance Indicators ("KPIs") that contributed to the growth in 2020 are explained in more detail below.

Premium Income

Gross premium income from new and existing members has increased from £23.6m in 2019 to £27.1m in 2020. Most of the Society's premium income in 2020 was 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 our financial strength.

Investment Returns

Total Group investment assets has increased from £87.5m to £91.3m in 2020. Due to the disruptions of Covid-19 on the UK and global economy, market movements in 2020 have been less favourable compared to 2019. As a result, total investment losses in 2020 were £4.7m (2019: income of £6.2m). The majority of those losses were attributable to the Society's CTF book of business where the performance of the fund is directly linked to the FTSE All-Share Index which fell by over 12% in 2020.

Realised gains in 2019 were higher because of selling our investment portfolio that was managed by Vestra LLP and transferring the cash proceeds into pooled investment funds managed by RLAM.

Income received by the pooled funds are reinvested and reflected in the net investment gains.

Expenses and Claims

Another important financial measure is expenses. Total operating expenses have reduced to £10.3m in 2020 from £11.5m in 2019 as the Society made cost reductions through operational process digitisation and remote working. But the Society continues to invest in its people and technology so it can effectively service its membership base. In 2020, there have been several government-backed financial support initiatives announced to support entities impacted by the Covid-19 disruptions. The Society has not taken advantage of these initiatives on the back of its financial strength and resilience.

The Society's reason for existence is to provide financial protection for its members and policyholders. Total claims incurred in 2020 of £11.5m has decreased from £14.2m in 2019. Total claims include withdrawal and surrender payments that can fluctuate year-on-year depending on the needs of our members.

Movement on Long-term Business Provision

Total long-term business provision, net of reinsurers' share was £19.7m as at 31 December 2020 and this has decreased from £20.2m at the end of the prior year. The movement is partly due to the initiatives the Society has taken to manage its insurance risks and from new business written in the year. For further details, see note 18(a) of the financial statements.

Risk Management Report

The Society uses risk management as a key tool to help us increase the likelihood of achieving our strategic objectives and to deliver positive outcomes for our members. The risk management approach is integral to our strategy, operations and conduct. We continue to refine our approach in the light of emerging developments and standards.

Risk Governance Structure

The Risk Governance Structure sets out the formal governance responsibilities of committees and the Board to support effective risk management.

The Board has ultimate responsibility over risk management. The Board approves and has oversight of the structures in place to ensure the Society achieves its strategic objectives within its risk appetite.

The Board is supported by the Board Risk Committee and the Audit and Compliance Committee in executing its responsibilities. The Board Risk Committee ensures the Society has an effective and well-integrated risk management framework. The role of the Audit and Compliance Committee is to assist the Board in monitoring the performance and objectivity of the external and internal auditors and to review the effectiveness of key operational and financial controls.

The day-to-day oversight of risk management is the responsibility of the Executives. Through the Conduct Risk Committee and Executive Operational Risk Committee, the Executives have established structures to monitor and manage risks. They are further supported by senior management and employees with consideration of risks that are materially relevant at their level of responsibility.

Risk Management Report

Risk Management Framework

The purpose of the Risk Management Framework is to ensure the Society has a robust framework in place that supports the effective and consistent identification, assessment and management of risks.

The scope of the Risk Management Framework extends to all major risk types faced by the Society. It is designed to sit alongside the strategic plan in defining the high-level architecture of the Society's planning and risk management processes. It supports the identification, assessment, management and control of material risks that threaten the achievement of the strategy, objectives and fair treatment of members. It does this through regular risk and control assessment, risk deep dives, reporting and general oversight activities. The Framework is underpinned by Board approved policies, which are further supported by the policies and procedures of the front-line business areas. These documents provide the detail of how risks are managed, the responsible managers and how activities are conducted on a day-to-day basis.

To facilitate our risk management framework, all staff have access to a risk management system ("The Risk Database") which enables them to enter new risks, monitor existing risks and monitor the effectiveness of controls designed to manage those risks. The Risk Database infrastructure is regularly updated to ensure it is fit for purpose. It has been recently redeveloped to improve the Society's identification of risks and mitigating controls. Based on data collated from the Risk Database, the Board and Board Risk Committee receive a comprehensive suite of risk information and analysis that reflect the significant or potentially significant risks impacting the Society's risk profile. The risk information provides the Committee with adequate detail to maintain effective oversight of the Society's risk against its risk appetite.

Risk Appetite and Tolerances

Regulations requires the Society to undertake, as part of its Strategic Planning, a forward-looking assessment of own risks and to produce an Own Risk and Solvency Assessment ("ORSA") on an annual basis. It can be produced more frequently if the Society's risk profile has changed materially. One ORSA was undertaken in 2020.

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. This is captured through the setting of the Society's Risk Appetite Statement that is approved by the Board. The Statement explains the level of risk the Society is prepared to accept in pursuit of its strategic objectives and defines the tolerance range for each material risk. The Society, through the Risk Management Framework, seeks to manage its exposures to each risk and ensure the residual risk exposures are within the tolerance. The Board, through the Risk Governance Structure, considers the Society's adherence to the Risk Appetite Statement and the risk tolerances.

A summary of the principal risks identified by the Society and that have been included in the 2020 ORSA are set out below.

Risk Management Report

Summary of principal risks

Financial 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. Included in this risk are market risks that change the value of assets on which solvency is measured and insurance risks that cause deterioration to solvency when these fluctuate significantly outside of forecast ranges.	The Society's solvency ratio is closely monitored by the Board. The Board has set out the actions the Society can take to restore its solvency ratio should levels fall below set tolerance levels. The Society produces a forward-looking assessment of its likely future solvency position on a range of scenarios. Based on the assessment, management identifies areas where particular focus is required to protect its solvency ratio. Investment risk volatility is managed by using pooled investment funds with RLAM and LGIM.
Sickness Risk	The Society pays a benefit to policyholders who have income protection contracts. The benefit is payable if they are unable to work due to accident or sickness. There is a risk that sickness claim volumes are higher than expected and recovery rates are lower than expected.	Claims experience is closely monitored by the Board, the Board Risk Committee and Senior Management. Income protection contracts may be reviewed in line with the terms and conditions of the contracts.
Lapse Risk	The value of the Society's protection business is treated as an asset in its financial statements. This is because future premiums are expected to be more than enough to cover the cost of benefits and expenses associated with those contracts. This means that the Society is exposed to the risk of that business lapsing more quickly than expected.	The risk is monitored regularly by the Board, Board Risk Committee and Senior Management and a range of management actions can be used to mitigate these risks. The Society maintains diversified product types and distribution channels. As the sale of protection products are mainly through intermediaries, there is continuous monitoring of intermediaries' performance. The Society seeks to work with intermediaries with the same cultural ethos as the Society.
Asset Share Coverage Risk	The Society seeks to cover its with-profits liabilities with the non-unit linked investment assets held on its Statement of Financial Position.	The Society has strengthened its asset share coverage position over 2020 through increased new business and further reinsurance arrangements. If required, the Society will consider other similar arrangements to further strengthen its asset share coverage. The Board will continue to monitor the balance of new business sales and acquisition costs to manage this risk.

Risk Management Report

Financial risks (continued)

Risk	Description	Management and mitigation
Expense Risk	This is the risk of uncontrolled costs to acquire new business or maintain existing business causing solvency levels to fall.	Acquisition expenses contain commission costs that are managed by the adherence to the agreed terms of business. Maintenance expenses are monitored by management through the monthly budget variance reporting process. This allows variances to be noted at an early stage and remedial actions initiated. The Board monitors expenditure against the budget which it has approved.

Strategic and Operational risks

Risk	Description	Management and mitigation
Operational Risk	Included in this risk are matters such as reliable internal processes, compliance with current legal and regulatory matters, and good conduct outcomes. 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 even when our staff are working remotely. The effectiveness of these policies, processes and procedures are monitored using the “three lines of defence” approach. The first line of defence includes the Executives Operational Risk Committee and the Conduct Risk Committee. The second and third lines of oversight are provided by the Society’s Risk, Compliance and Actuarial function and the independent Internal and External Audit firm. Any recommended corrective actions are implemented if required. The Society conducts a risk assessment of all new products and initiatives, and the assessment takes into consideration operational, regulatory and conduct risks.

Continues on following page

Risk Management Report

Strategic and Operational risks (continued)

Risk	Description	Management and mitigation
Operational resilience	Included in this risk is the ability for the Society to continue to operate its most important business services and to maintain adequate data security.	The Society has a governance structure to manage operational crises which enables rapid and effective decision making. The Society maintains a Business Continuity Plan that sets out the actions that will be taken to ensure all critical business processes can still be carried out during operational disruptions. The Society conducts a series of updates and simulations annually to enhance the Society's data management and cyber crisis management, taking into consideration our current remote working environment. The Society recognises that cyber threats constantly evolve in sophistication. Therefore the Society continues to invest in its security systems to ensure the Society remains resilient to cyber threats and other physical threats to business continuity. During 2020, the Society increased its infrastructure resilience by migrating its technology platform to a leading cloud provider's data centre.
New business Risk	The Society seeks to generate new business volumes to grow the business. There is a risk that too little new business results in operational inefficiencies and that too much new business creates operational strain.	The Society maintains a varied product range and varied distribution channels to provide continuous flexibility and adaptability to changing market circumstances. Market activities are monitored to capitalise on opportunities. The Society sets new business targets in line with the strategic plan, and risk appetite and tolerances. The Board monitors new business volumes against its targets.

Risk Management Report

Strategic and Operational risks (continued)		
Risk	**Description**	**Management and mitigation**
Counterparty and outsourcing Risk	The Society has a number of material relationships with third parties, and remains fully responsible for the oversight, management and performance of those outsourced activities. There is a risk that the Society is unable to meet its member obligations following the significant degradation of services received which could result in disruption to our operations or loss of financial assets.	Before entering any such relationships, the Society conducts due diligence on the organisations and the proposition to ensure any risks are fully considered. The Society also has a framework for the governance and oversight of material outsourcer and supplier arrangements that includes the requirement for Board approval prior to commencing any arrangement. The Board Risk Committee, the Audit Committee and the Fair Members Benefit Committee are all involved in the oversight of material third party arrangements.
Covid-19 Risk	The effects of Covid-19 and the UK and global response to it continues to present a range of risks to the Society. While the vaccination programme provides longer-term optimism, there is still a risk that the Society's solvency and liquidity position could be adversely impacted. This is because it may impact the Society's new business volumes, mortality and morbidity experience and lapse experience. There are also operational resilience risks although the Society has successfully adapted to remote working in 2020.	The Society takes a considered approach to minimising and managing the impact of the Covid-19 on key areas that are most at risk. These areas include new business sales, investments, insurance exposure, claims and operational resilience. The risks to new business sales, insurance exposure, sickness claims and operational resilience are managed as separately identifiable principal risks in the table above. The impact for Covid-19 is taken into consideration when managing these risks. The Board meets monthly to monitor developments and to enable decisions to be taken quickly to manage the Society's solvency and liquidity. The Society's lower risk investment strategy will partly mitigate the impact of market fluctuations due to market sentiment. The Society monitors the fund performance closely to ensure it continues to meet its members' needs.

Risk Management Report

Climate Change

The Society recognises its role as a responsible business to consider the implications of climate change on our members, our operations and our community. Like most health and life insurers, the Society may be impacted in the long-term by the effects of climate change. However as the Society has no exposure to general insurance, we have assessed our risks due to climate change to be more limited.

We are evolving our governance, risk management, measurement and target-setting as we take a strategic approach that recognises the increasing impact of climate-related changes.

Governance

The Board has taken on responsibility for oversight of the impact of climate change on the Society and the Board has ultimate responsibility over the way the Society manages its response to the issue. The Board Risk Committee has been allocated responsibilities for the financial risks of climate change, and helps the Board oversee and understand the implications for the Society's strategy and risk management framework.

Strategy

The Society has established a working group consisting of individuals across the business to identify changes to working practices or new ideas which will lower our carbon footprint and improve what we do for the environment. In the year, these activities have included transitioning our preferred communication methods with members to electronic forms and investing in technology solutions to be able to communicate remotely and travelling less. The group will work towards monitoring our carbon footprint and engage with our suppliers to identify ways to reduce our environmental impact.

The Society's Risk Management Framework has been updated and continues to be updated to reflect the financial risks of climate change. Climate change related risks have been included in the annual ORSA. At a Board level, we have started to engage with our investment managers to better understand their approach on climate change and we have considered their product offering for our members.

Risk Management Report

Risk management

The Society has identified the climate change related risks and opportunities shown below, together with actions being taken or considered to mitigate these risks or harness these opportunities.

Risk and opportunities	Mitigating actions
Financial losses from claims caused by the physical impact of climate change and the potential changes to mortality or morbidity.	Embedded risks in the Society's scenario and stress testing to assess the potential impact on solvency and liquidity.
Financial losses from investments caused by transitional risks from adjustment to a low carbon economy or changing market conditions due to climate change.	Engagement with our investment providers to understand their approach to climate change.
Shift in members' expectations and demands caused by climate changes that we may not be able to fulfil and leading to reputational risks.	Assessment of existing products and policies and consideration of changes to products and policies to meet members' demands.
Operational failures caused by physical impacts of climate change, for example on essential utilities, business critical supplies and distribution networks.	Integrating scenarios into disaster recovery testing.

Metrics and targets

As part of the development of the risk framework, we will develop metrics and targets to assess material financial risks that are impacted by climate change. We recognise that we are at the start of our journey to report on the level of energy use and there are ongoing initiatives to develop these for our business.

Board of Directors

We present below the members of our Board as at the date of approval of the financial statements along with a summary of their professional experiences.

Christopher Critchlow was co-opted to the Board on 1 January 2020 and was appointed as an Executive Director at the 2020 AGM on 16 September 2020.

Profiles of the Board Members in 2020

Joanne Hindle
Chairman

Experience
Having trained as a lawyer, 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, Chair of the trade body ILAG and Chairman of the Board of the Holmesdale Building Society.

External appointments
Non-Executive Director for the Bank of London and Middle East and Chair of their Nomination and Remuneration committee and Head of Legal for part of the AXA Group until December 2019.

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 including Marketing Director and Managing Director of the Society's subsidiary Financial Advice Network. Ann-Marie was appointed CEO in January 2015.

External appointments
None.

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
Board Advisor 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.

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
Council member 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 until December 2019, Non-Executive Director of the Scottish Building Society and Chair of their Risk Committee.

Board of Directors

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 before that he has held roles in risk, compliance, marketing and sales.

External appointments
None.

Nasrin Hossain
Executive Director

Experience
Nasrin has been with the Society for over 15 years. Her primary responsibility is to manage and develop the Society's culture and people strategy. She is a HR specialist and a chartered member of the Institute of Personnel and Development. Nasrin has over 25 years' experience in various HR roles across different industries.

External appointments
None.

Mark Myers
Non-Executive Director

Experience
Mark has worked in the Financial Services sector for 35 years and has a broad range of experience across banking and insurance, having worked for both public companies and mutual organisations. His recent experience was as CEO of British Friendly, a mutual Income Protection provider and interim CEO of MetFriendly, an affinity based with-profits mutual which provides savings and investment products to members of the police service.

External appointments
Chairman of the Board of Direct Life and Pension Services until January 2021, Committee Member of Huntingdon Racecourse, and Governor and Trustee of the King's School, Ely.

Samuel Chivers
Executive Director

Experience
Samuel has been with the Society for over 10 years. After a previous role as a software analyst, he has held a variety of roles in both Marketing and Information Technology ("IT") rising to Head of Information Technology for the Society in 2016. Through delivery of the Society's IT Strategy, he has played a key role in modernising the Society's technological infrastructure to improve scalability and meet the needs of both our Members and the business. Samuel was promoted to Chief Operating Officer in 2017 and since then, holds responsibility for the Project Management, IT & Software Development, Claims and Underwriting functions.

External appointments
None.

Christopher Critchlow
Chief Actuary and Executive Director
(appointed on 16 September 2020)

Experience
Qualified actuary with 30 years' experience working in the financial services sector. Before joining Shepherds Friendly, Christopher was a Director at OAC plc where he was responsible for the delivery of the firm's professional services consultancy work. He has previously acted as Chief Actuary and With-Profits Actuary to a number of insurers in the UK.

External appointments
Non-Executive Director of Stewart Title Limited.

Board of Directors

Board Attendance in 2020

The attendance of the board members at meetings during the year were as follows:-

Current board members:	Jan	Mar	Apr	May	Jun	Sep	Sep	Nov
	BM	BM	BM	SD	BM	BM	SD	BM
Joanne Hindle Chairman and Non-Executive Director	✓	✓	✓	✓	✓	✓	✓	✓
Nemone Wynn-Evans Non-Executive Director	✓	✓	✓	✓	✓	✓	✓	✓
Simon Pashby Non-Executive Director	✓	✓	✓	✓	✓	✓	✓	✓
Cameron Mills Non-Executive Director	✓	✓	✓	✓	✓	✓	✓	✓
Ann-Marie O'Dea Chief Executive Officer	✓	✓	✓	✓	✓	✓	✓	✓
Nasrin Hossain Executive Director	✓	✓	✓	✓	✓	✓	✓	✓
Samuel Chivers Executive Director	✗	✓	✓	✓	✓	✓	✓	✓
Christopher Critchlow Executive Director	✓	✓	✓	✓	✓	✓	✓	✓
Tim Robertson Company Secretary	✓	✓	✓	✓	✓	✓	✓	✓

BM Board meeting
SD Strategy days

In addition there were regular board update meetings during the year. The updates were facilitated through video conferencing to discuss the effects of Covid-19 on the Society and other strategic matters. The meetings also facilitated approval for 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 16 to 17. Information on how they have governed and managed the affairs of the Society and its subsidiaries in the year is given in the Corporate Governance Report on pages 24 to 41.

The Society has continued to maintain Directors' and Officers' 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 and Future Development

The Group comprises The Shepherds Friendly Society Limited ('the Society') and its subsidiary companies, Financial Advice Network Limited and Financial Advice Website Limited. The Society writes mainly Income Protection, ISA, Junior ISA, Over 50s and Fixed Rate Bond plans in the United Kingdom, and maintains a book of Child Trust Fund policies. 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.

Financial Advice Network Limited operates a network of financial advisers and Financial Advice Website is a service company for the Group. The activities of Financial Advice Network Limited have been discontinued in the year.

The Directors confirm that to the best of their knowledge all activities carried out by the Society during the year were within the Society's 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 page 6 and the Financial Performance Report on page 7. The Society's impact assessment of Covid-19 is set out on page 21.

Risk Management and Internal Control

The Directors have carried out a robust assessment of the principal risks facing the Group and the Society, as part of the annual ORSA cycle. An overview of the Group's risk management can be found on pages 8 to 15. Note 5 to the financial statements also provides details about the Group's financial risk management and controls. The effectiveness of the Society's internal controls in managing those risks are monitored by the Audit and Compliance Committee and an overview of this process is included in the Audit and Compliance Committee report on pages 30 to 32.

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

Directors' Report

Employees and Engagement with Employees

The Society's culture and ethos is to have a work environment that promotes the acceptance of a range of perspectives, ideas and talents. We believe that everyone benefits when we embrace and value diversity of thought, ideas and ways of working as well as helping us to more effectively understand and meet the needs of our diverse membership.

The Directors maintain various forms of formal and informal communication with our staff. The Executives regularly update staff on developments within the Society at staff meetings, through staff bulletins and other internal communications. Our staff and all new starters have various channels to give feedback or voice concerns including through the staff voice on the Board that is represented by Simon Pashby. They can raise formal matters of concern such as fraud, serious misconduct or malpractice anonymously through the whistleblowing process.

Donations

The Society donated £1,500 (2019: £1,800) to charities during the year. No political donations were made during the year (2019: £nil).

Going Concern Statement

The AFM Corporate Governance Code comments that the Directors should state whether the business is a going concern over the next 12 months. In considering the going concern statement, the Directors have considered the following:

- The Group's business activities, together with the factors that are likely to affect its future development and financial strength (see details in the Chairman's and Chief Executive's Reports from page 4);
- The analysis of material risks faced by the Group and the management of those risks (see details in the Risk Management Report from pages 8 to 15);
- 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 2020 and throughout the year (further details are included in the Solvency and Financial Condition Report which will be made available on the Society's website); and
- The impact caused by Covid-19 on our forecast solvency and liquidity as set out below.

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.

Directors' Report

The Society's assessment of Covid-19

Despite weathering the impacts of Covid-19 in 2020, the Directors are still mindful of the impact Covid-19 may have on the Society. The effects of Covid-19 continue to be uncertain but it is important to recognise that the current vaccine roll out should allow economic and social activities and the Society to eventually return to greater levels of normality.

At the time of preparing the Directors' Report and throughout the crisis since 31 December 2019, the Society's estimated solvency ratio was above the required solvency levels set by its regulators. These estimated ratios have been calculated before the effect of any additional management actions the Society has at its disposal to further improve solvency.

The Directors have also reviewed the remaining impact of the disruptions on the Society's cashflows for the next twelve months and anticipate that the Society will be able to maintain its liquidity. This is also taking into consideration that the Society has grown its total assets during the year by £17.3m, from £138.7m to £156.0m as at 31 December 2020.

The Directors recognise that there remains significant uncertainty over future experience across several key business and financial areas.

These include:

a) Investment performance due to investor sentiment to worldwide actions to pause economic activity. Markets are expected to recover once restrictions are lifted, but there is a risk that this may take longer than anticipated;

b) New business sales volumes due to lower consumer disposal income. Government measures to support the economy may help but there is a risk that the measures may not be effective enough. This could also result in more withdrawals from existing savings policies;

c) Lapses on existing protection policies due to lower consumer affordability. There is risk that higher than anticipated lapses will impact expected premium income and therefore liquidity;

d) Claims levels arising from increased sickness rates or lower recovery rates. While the Society manages this risk as a core competency, there is a risk that sickness inactivity will be longer than anticipated with the increased demands on the public healthcare system. The risk should be reduced by government measures to fund personal hardship during the period of crisis; and

e) Operational resilience to be able run the business remotely. While the Society has successfully run the business remotely over most of the year and it is continuing to invest in technology and innovations to help improve remote working efficiency and effectiveness, the Society is dependent on other essential service providers such as internet, communication and system providers who themselves face the risks of being able to remain operational. There is also still a risk that despite prevention measures taken, the Society's staff are directly infected by the virus and that numbers affected are significant enough to disrupt critical processes.

Directors' Report

The actions that management will take to manage these risks in normal operational circumstances and in response to Covid-19 risk are detailed in the Risk Management Report on page 13. The Society also has a Board approved Capital Management and Restoration Plan in place that documents further actions management can take to help restore its capital and liquidity position. Supporting the Society's response strategy are active monitoring and reporting procedures with appropriate frequent escalation to the Board, and active communications with all staff, its regulators and other stakeholders.

The Society has factored all the significant uncertainties into its scenarios and stress testing for its annual ORSA process and taking the results of those tests into consideration, the Board is reassured and confident that the Society and the Group has the necessary capital and liquidity resilience to continue business as a going concern.

Longer-term Viability Assessment

The Directors are also expected to assess the prospects of the Group and the Society over a period longer than twelve months required for the going concern review. During the year, the Directors attended two strategy sessions during which they carried out a robust assessment of the opportunities, threats and principal risks for the Society over the next three years. This assessment, performed as part of the ORSA process, considered resilience of the Society to risks that would threaten the business model, future performance, solvency or liquidity of the Society. The ORSA process included an assessment of the Society's capital resilience to stress testing using a range of severe but plausible scenarios to the end of 2024. The scenarios included significantly unfavourable variations in the levels of new business, underlying economic assumptions, and policy lapses and claims compared to those expected.

These variations took into consideration uncertainties due to Covid-19 and these uncertainties are set out as part of the Going Concern assessment on page 19. The scenarios are designed to be extreme, but plausible, based on the assumption that the impact on the UK is immediate but temporary. The potential impact of Covid-19 and management actions in response to Covid-19 are subject to close and continuous monitoring by the Directors.

Based on these assessments and noting the uncertainties detailed above in relation to Covid-19, the Directors have a 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 at least to December 2023. While the ORSA period of assessment is three years, the ORSA indicated a viability over a longer period.

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 15), the Report on Corporate Governance (please see Pages 24 to 41) and the Financial Statements (please see pages 51 to 77), 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).

Directors' Report

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

BDO LLP were appointed as auditors at the 2020 Annual General Meeting after a tender process had taken place in 2019. BDO LLP is permitted to serve as auditors a further nine years, subject to annual approval by members. A resolution to re-appoint BDO LLP will be proposed at the next Annual General Meeting.

T Robertson
Company Secretary
7th April 2021

Corporate Governance Report

Introduction

The Society delivers high standards of Corporate Governance by having documented policies and procedures and internal systems of control enabling the Society to be well managed. The effectiveness of the policies, systems and controls are monitored by a "three lines of defence" approach.

- The first line of defence and primary responsibility lies with the senior management team and all staff in the business.
- The second line of defence is provided by the internal Compliance and Risk and Actuarial functions.
- The third line of defence is provided by the independent Internal Audit firm and separate external statutory auditors.

Outputs from the three lines of defence enables the Board and the Board Committees to have governance oversight of the whole Society.

The Committees are led and consist of independent non-executive directors. The Directors are able to confirm, as a result of these processes, that the Society 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 auditors and external audit firm is evaluated annually by the Audit and Compliance Committee.

The Society is governed primarily by the Friendly Society Act and the Corporate Governance Code set by the Association of Financial Mutuals. The Society is also committed to meeting requirements set by other governance regimes which have contributed to improved overall governance standards. Each of these are discussed below.

The AFM Corporate Governance Code ("The AFM Code")

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 AFM Code has six overarching principles and the Directors have set out below how the Society has applied each principle.

Principle One: Purpose and Leadership

Purpose
Since the Society was established in 1826, its purpose always has been to act in its members' interests as it is owned by its members. Under the Board's direction, the Society has articulated its purpose into a mission statement which then drives the Society's strategy, operating practices and approach to risks.

The mission statement is shared with all staff and provides the Society with a clear sense of purpose and collective vision. The mission statement requires us to protect our members' interests and provide them with the service and products that meet their needs.

Values and principles
The Society's values and principles underpin all internal processes and operating practices. As a regulated entity, culture and conduct risk is monitored internally by the Society's Culture Director. Regular reporting is provided to the Board. The Board maintains responsibility in ensuring the Society operates to the level of conduct required by its Regulators, and this has been embedded into corporate and individual performance targets.

Strategy
Every three years, the Board develops a three-year strategic plan. The objective is for the Society to continue to grow in line with its purpose, values and principles. This is discussed further in the Strategic Report on page 6. The Society assesses the potential risks of the strategic plan and how it plans to manage those risks through the annual ORSA process.

Corporate Governance Report

Principle Two: Board Composition

Chair

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

Balance and diversity

The profiles of the Society's Board members are on pages 16 to 17 and they highlight the skills and experience that each Board member brings, which in turn provides constructive challenge to achieve effective decision-making. The Society recognises the benefits of having a diverse Board and highlights its commitments in its Board Diversity Policy that is accessible through the Society's website. At 31 December 2020, four out of the nine Board members are female. Through the Nominations and Governance Committee, any appointments are recommended to the Board following a formal, rigorous and transparent process. The Committee will consider all appointments on balance of skills, experience, independence, knowledge and diversity.

Size and structure

The Board as at 31 December 2020 comprises a Chairman, CEO, three Executive Directors and four Non-Executive Directors. One of the Non-Executive Directors is appointed as Senior Independent Director, who also serves as an intermediary for the other directors and the Society's members. All non-executive directors meet the definition of being independent, including the Chairman who has been a member of the Board since 2008. Although the Chairman has been a director on the Board for over nine years, she continues to demonstrate independence of thought and judgement, and acts with an independent character. The Chairman's independence is assessed on an annual basis. All the non-executive directors are considered to be independent.

The Non-Executive Directors, including the Chairman, present themselves for annual reelection by the Society's members annually at the Annual General Meeting ("AGM").

Effectiveness

On an annual basis, the Nominations and Governance Committee assesses the Board's and its Committees' performance, and the individual directors' performance. The Senior Independent Director conducts and chairs a meeting with the non-executive directors to appraise the Chairman's performance on at least an annual basis. The Senior Independent Director will also ensure that the annual performance evaluation of all the non-executive directors is conducted and that any matters arising from the review are promptly acted upon. The assessment process ensures operational effectiveness of the Board can be continuously improved, and that individual directors have development plans to ensure they can enhance their existing skills, knowledge and experience.

The Board recognises the need to conduct a Board effectiveness review that is externally facilitated at least once every three years. The last external assessment was undertaken in 2018.

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.

Corporate Governance Report

Principle Three: Director Responsibilities

Accountability

The Board Manual details the Society's overall governance arrangements, decision-making processes and directs the conduct of the Board. The Board Manual also details the broad responsibilities, systems, controls, and principles by which the Board should operate.

The Society operates a Conflict-of-Interest Policy which provides guidance when a potential conflict of interest may arise. When actual or potential conflicts arise, the Director completes a Conflict-of-Interest Declaration. These are then considered by the Nominations and Governance Committee who then report to the Board and highlight any areas of concern.

Committees

The Board Committees' delegated authorities are defined in a documented Terms of Reference that is accessible through the Society's website. The Committees' members comprise independent Non-Executive Directors who have relevant skills and experience. For example, the Audit and Compliance Committee is chaired by Simon Pashby who has recent and relevant financial experience, and the Remunerations Committee consists of three independent non-executive directors and it is not chaired by the Board Chairman.

While the Committees have delegated authority for governance oversight, the Board maintains responsibility for making decisions based on their recommendations as documented in the Terms of Reference.

The Committee reports are on pages 30 to 36.

Integrity of information

Through internal processes that are regularly reviewed on its effectiveness using the Society's "three lines of defence" approach, the Board is provided with a broad range of information that is accurate, comprehensive and can be relied on for effective decision making.

Key processes, from which information is derived, are reviewed on a cyclical basis by the outsourced Internal Audit firm. Their findings and recommendations are provided to the Audit and Compliance Committee. Financial information is collated from the Society's accounting system and it is externally audited on an annual basis.

Principle Four: Opportunity and Risk

Opportunity

The Board is focused on promoting and delivering long-term value by maintaining responsibility for all strategic decision-making. The Board hold two strategy days annually to identify and assess opportunities with consideration of the Society's risk appetite. The long-term strategic objectives of the Society as agreed by the Board are highlighted in the Strategic Report on page 6.

Risk

Through the annual ORSA process, the principal risks have been identified and robust reporting delivered to the Board and the regulator on management's plans to address and mitigate those risks. The principal risks and uncertainties are disclosed in the Risk Management Report on pages 8 to 15. The Board also monitors emerging risks to ensure the Society is well-placed to manage these risks if they materialise.

The Society maintains systems and controls designed to manage risks and to prevent, where possible, risks from materialising.

Responsibilities

The Board Risk Committee ensures the establishment, development and maintenance of an effective and well-integrated risk management system. It ensures that systems and processes are in place to enable existing and emerging risks to be identified, measured, mitigated, monitored and reported.

Corporate Governance Report

The Committee achieves this outcome by operating a software-based risk system that is supported by a comprehensive range of internal policies, processes and procedures. The effectiveness of these systems is monitored by the internal compliance team, the independent Internal Audit firm and the Audit and Compliance Committee.

Principle Five: Remuneration

The Board seeks to attract, retain and reward talented Executives and staff by providing a competitive package which encourages high level performance, the correct values and behaviours and the achievement of strategic objectives.

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 Board on a periodic basis. The Committee 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.

Although the Society is not required by law to submit a Gender Pay Report, the Society has produced a Gender Pay analysis for internal use to identify any potential issues. A summary of the Society's gender pay analysis for 2020 is included in the Remuneration Committee's report on page 36.

In the prior year, the Society was accredited as a National Living Wage Employer, an important external validation that the Society's employees are rewarded fairly.

Principle Six: Stakeholder Relationships and Engagement

General

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, telephone, written and internet contact.

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

Members

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. The Financial Statements are externally audited. This ensures the views of the Board are independently assessed. Both documents can be accessed through the Society's website.

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.

Corporate Governance Report

The last General Meeting was held on 16 September 2020 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.

Employees
The Society has various channels for our staff to give feedback, contribute ideas and share concerns with senior management and the Board

In accordance with the Society's whistleblowing policy, employees can raise concerns directly to Simon Pashby, an independent non-executive director. The Audit and Compliance Committee reviews the whistleblowing policy annually.

Suppliers and business partners
The Society works with several third-party suppliers, who provide a variety of business products or services. The Society's Supplier Management and Outsourcing Framework is designed to support the Society in its engagement with suppliers, ensuring the Society achieves the required results through third parties while adhering to regulatory requirements.

The community and the environment
The Society partners with Seashell Trust, a charity in the local community, providing them with support in the shape of donations and running of events. The Society continued its participation in Seashell Trust charity events through video-conferencing facilities when social distancing restrictions were in place.

We are pleased to confirm that we have explained how we have complied to the Principles of the AFM code.

Governance Standards of UK regulators

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

How the Society has satisfied their requirements is explained below.

Prudential Requirements

The PRA requires the Society to satisfy Solvency II Directive requirements on an on-going basis.

One of the requirements is that 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 2020 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 resources the Society has over what is needed as a minimum to meet the liabilities of the Society as they fall due.

In prior year, the figure was 167% and in 2020 it had increased to 176%. 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 the Society must conduct at least annually an Own Risk and Solvency Assessment ("ORSA"). 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.

Corporate Governance Report

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 2020 ORSA was successfully completed, with the involvement of the whole Board, and that we are satisfied that the Society is pursuing appropriate forward-looking business strategies and appropriate prospective actions to ensure solvency levels remain positive and further strengthened if required, in light of the continuing Covid-19 disruption.

Conduct Requirements

The Solvency II Directive set a wide range of standards and requirements for how governance should be undertaken in insurance businesses. Both the PRA and the FCA have now implemented these requirements in a far-reaching way across our industry alongside the Senior Manager & Certification Regime.

The regime is designed to ensure that the senior people, on the Board and within the Society 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. Senior managers and directors holding roles captured within this regime are individually accountable, and can be held personally liable for business failures if they cannot demonstrate that they have taken reasonable steps to perform to the standards expected.

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

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

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

Board Committee Reports

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

Committee	Independent Chair
Audit and Compliance Committee	Simon Pashby
Board Risk Committee	Nemone Wynn-Evans
Fair Members Benefit Committee	Cameron Mills
Nominations and Governance Committee	Joanne Hindle
Remuneration Committee	Mark Myers

A summary is given below of the most significant governance work conducted by these Committees throughout 2020.

Audit and Compliance Committee

Key Responsibilities

Effective from 15 January 2020, the Committee agreed to take on oversight of Compliance which previously had reported through the Board Risk Committee. The Committee was renamed as Audit and Compliance Committee. The primary responsibilities of the Audit and Compliance Committee are to:

1. deliver independent oversight of the preparation of the Annual Report and Financial Statements and the Solvency Financial Condition Report;
2. monitor and review the effectiveness of internal systems and controls;
3. review the effectiveness of internal audit and its reports on an ongoing basis;
4. assess the performance and independence of the external auditors and manage the process for any external and internal audit tenders; and
5. oversee compliance with the Financial Services and Markets Act 2000 and related legislation.

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 16 to 17. The Board is satisfied that the Chair, Simon Pashby has competence in accounting and auditing.

Board Committee Reports

There were six meetings in the year as follows:–

	2 Mar	30 Mar	30 Apr	16 Jun	20 Aug	5 Nov
Simon Pashby Chairman and Non-Executive Director	✓	✓	✓	✓	✓	✓
Nemone Wynn-Evans Non-Executive Director	✓	✓	✓	✓	✓	✓

The meeting held on 30 April 2020 was specifically to review and approve the Annual Report and Financial Statements and the Solvency Financial Condition Report for the financial year ending 31 December 2019, following the disruption caused by Covid-19.

Significant matters considered by the Committee in 2020

2019 Annual Report and Financial Statements

The table below highlights the significant matters in relation to the 2019 financial statements considered by the Committee during the year and how they were addressed.

Significant matters considered	How the matter was addressed by the Committee
Going concern assessment and disclosures arising from the impact of Covid- 19	The Committee reviewed the going concern assessment produced by management. The assessment covered an 18 month period to 30 June 2021 and the stressed scenarios, taking into consideration the uncertainties of Covid-19, provided a view that the Society would remain solvent and liquid over that period. The Committee assessed the assumptions and stresses applied to projections and it was satisfied that the going concern assumption was appropriate for the 2019 financial statements.
Technical provision valuations methods and assumptions for the 2019 Annual Report and Financial Statements	As it is a significant risk area, the Committee received papers from the Chief Actuary detailing the technical provision valuations as at 31 December 2019. The Committee considered the reliability and accuracy of the valuation results, and its underlying assumptions and data. The Committee was satisfied that the valuations were appropriate having also considered the views of the external auditors.
Valuation of non-listed investment assets for the 2019 Annual Report and Financial Statements	The Committee considered the valuation of non-listed investments, in particular the investment in unquoted equities 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 valuation assumptions.

Board Committee Reports

Significant matters considered	How the matter was addressed by the Committee
Approval of the 2019 Annual Report and Financial Statements	In April 2020, the Committee reviewed and approved the 2019 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 2020, the Committee also reviewed and approved the 2019 financial statements for the Society's subsidiaries, Financial Advice Network Limited and Financial Advice Website Limited.

External Audit

For the financial year ending 31 December 2020, BDO LLP were appointed as external auditors at the Society's AGM in September 2020. The Committee monitors the independence and objectivity of the external auditors. The Committee reviewed and updated the policy for non-audit services in line with the revised FRC Ethical Guidance 2019 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. In 2020, the external auditors did not provide non-audit services.

Internal Audit

The Committee considered regular reports from Internal Audit on the effectiveness of the Group's control environment and the Committee was provided with assurance over the effectiveness of internal controls. Additionally, the Committee reviewed the Internal Audit plan for 2021 – 2023 and agreed with the proposed scope. The scope will be regularly assessed in light of emerging risks.

Compliance

The Committee considered the completeness and adequacy of the Annual Assurance Compliance Plan and monitored the findings from the Compliance activity. The Committee also assessed the effectiveness of the Compliance Monitoring Function, taking into consideration the work of the Internal Auditor.

Other significant matters

Other significant matters considered during 2020:-

1. Reviewed the 2019 Annual Money Laundering Reporting Officer's Report for the Society and its trading subsidiary; and
2. Reviewed the 2019 Corporation Tax computations for the Society and its subsidiaries.

Board Committee Reports

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 six meetings in the year as follows:–

	15 Jan	30 Mar	16 Jun	20 Aug	1 Oct	4 Nov
Nemone Wynn-Evans Chair and Non-Executive Director	✓	✓	✓	✓	✓	✓
Simon Pashby Non-Executive Director	✓	✓	✓	✓	✓	✓
Cameron Mills Non-Executive Director	✓	✓	✓	✓	✓	✓

The meeting held on 1 October 2020 focused on the annual ORSA that was updated to take into consideration the risks which the Society is currently experiencing and the remaining effects that it can reasonably foresee in the ongoing Covid-19 environment.

Significant matters considered by the Committee

During 2020, the Committee:-

1. Provided close focus and facilitated Board discussions on Covid-19 related risks, other principal risks and emerging risks, and their prevailing pressures on solvency, asset share coverage and cost of guarantees;
2. Drove the continuous evolution of risk information received by the Committee and the Board to enable effective oversight of the Society's risks and the Committee's ability to understand and manage risks that are related to Covid-19 and that are not related to Covid-19;
3. Played an active role in challenging and helping to shape the 2020 ORSA and Financial Condition Report with recommendation of approval to the Board having considered updates to principal risks and emerging risks, and management actions to manage the impact of those risks on the Society;
4. Reviewed the specific risk sections of the 2019 SFCR and Annual Report to ensure the quality and content are consistent with the ORSA and the reports reflected the risks that have crystallised because of Covid-19. The Committee recommended Board approval after amendments are made as requested by the Committee;
5. Considered the appropriateness of the Standard Formula used for 2019 Solvency II actuarial valuations; and
6. Reviewed the Society's risk management framework and recommendation to the Board for approval.

Board Committee Reports

Fair Members Benefit 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 full Terms of Reference can be found on the Society's website.

Committee Membership

The Board is satisfied that the Chair, Cameron Mills has relevant experience of with-profits business.

There were five meetings in the year as follows:–

	13 Mar	30 Mar	15 Jun	19 Aug	4 Nov
Cameron Mills Chair and Non-Executive Director	✗	✓	✓	✓	✓
Mark Myers Non-Executive Director	✓	✓	✓	✓	✓
Joanne Hindle Non-Executive Director	✓	✓	✓	✓	✓
Nasrin Hossain Executive Director	✓	✓	✓	✓	✓

The additional meeting on 13 March 2020 was held to discuss the impact of significant declines in investment markets and the possible impact of Covid-19 on the Society's financial resilience.

Significant matters considered by the Committee

Significant items considered during 2020:-

1. Considered the possible effect of Covid-19 and the investment market volatility on the Society's solvency, and recommended to the Board for approval the management actions to protect its members' interests;
2. Reviewed the With-Profits Actuary reports on PPFM compliance and the exercise of discretion in 2019;
3. Reviewed the With-Profits Actuary report and Board report to with-profits policyholders;
4. Considered and recommended to the Board the bonus rates in respect of 2019 for "Holloway" plans;
5. Reviewed the 2020 Financial Condition Report;
6. Oversaw a review of the Society's existing ISA, Income Protection and Over50s products and product literature;
7. Considered and recommended to the Board the bonus rates in respect of 2019; and

8 Considered and provided appropriate challenge on the Society's investment strategy to ensure it meets the members' needs.

Board Committee Reports

Nominations and Governance Committee

Key Responsibilities

The Nominations and Governance Committee is responsible for independent oversight of the how the Society selects, develops and plans succession for all senior managers and all Board members, and 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 four meetings in the year as follows:–

	15 Jan	15 Jun	19 Aug	3 Nov
Joanne Hindle Chair and Non-Executive Director	✓	✓	✓	✓
Mark Myers Non-Executive Director	✓	✓	✓	✓
Simon Pashby Non-Executive Director	✓	✓	✓	✓

Significant matters considered by the Committee

Significant items considered during 2020:-

1. Reviewed the 2019 CPD records for the Board and agreed the approach for 2020;
2. Considered the 2019 board assessments that were undertaken;
3. Reviewed the CPD records and Fit and Proper Assessments of all SMF function holders, and the appropriateness of management responsibilities map;
4. Reviewed the Terms of Reference for all Board Committees and the Board Manual;
5. Considered the Statements of Responsibility to ensure they remained up to date;
6. Initiated discussions on climate change and the Society's plan on managing the financial risks as a result of climate change;
7. Reviewed and approved changes to the Board Diversity Policy and the new Equality and Diversity Policy; and
8. Considered and approved the nomination of the Chief Actuary as a Board Member.

Board Committee Reports

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 in the year as follows:–

	15 Jan	8 Jun	19 Aug	5 Nov
Mark Myers Chair and Non-Executive Director	✓	✓	✓	✓
Joanne Hindle Non-Executive Director	✓	✓	✓	✓
Simon Pashby Non-Executive Director	✓	✓	✓	✓

Significant matters considered by the Committee

Directors' Remuneration

The Committee reviewed and approved the remuneration of the Chief Executive and the other directors for 2020. The details of the remuneration for the directors in 2020 are set out in the Directors' Remuneration Report on pages 38 to 41.

Gender Pay Gap

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

In the prior year, the Society signed up to the Women in Finance Charter and this has demonstrated the Society's commitment to gender diversity at senior management. The median pay gap for the Society is lower than the industry average. While this is positive for the Society, the Society will continue to develop individuals to progress their careers and it remains committed to remunerate individuals based on experience and qualification.

Other significant matters

Other significant matters considered during 2020:-

1. Reviewed and considered remuneration in view of the impact of Covid-19; and
2. Reviewed and approved the remuneration policy applicable to the Chief Executive and the other directors for 2020.

Working Together

We are an organisation that cares, always putting people first. We thrive and succeed as a team, building trusting and rewarding relationships, inside and out.

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 also comply with good corporate governance practice as well as relevant principles of the AFM Code.

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

1. putting members at the heart of what we do and treating them fairly;
2. promoting appropriate culture and behaviours including openness, clarity & simplicity;
3. promoting sound risk management & eliminating incentives towards excessive risk taking;
4. ensuring the contribution of staff to achieving strategic goals is fully recognised; and
5. achieving equality, fairness and consistency in the operation of rewards policies and practices.

Directors' Remuneration Report

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 similar sized businesses in our sector, and to reflect the skills and experience of the individual. The salary is competitively pitched based on an annual benchmarking exercise.

Performance Bonus

The Executive Directors can earn an annual bonus following the successful achievement of performance targets that are set to ensure the strategic objectives of the Society are achieved. Targets are quantifiable measures linked to financial, corporate, governance and culture related objectives. The potential bonus has a maximum of 30% of basic salary. The targets are monitored at various intervals during the financial year and the final calculations are based principally on the performance of the Society measured against the agreed targets and recommended for approval by the Remuneration Committee to the Board.
The Committee also exercises its discretion to ensure that other factors are taken into account to ensure objectives are not achieved in the current year as a result of actions which would be to the longer-term detriment of our members or the Society.

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.

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 rigorous appraisal system and commitment to ongoing professional development applicable to them.

Board Remuneration 2020

Throughout the Covid-19 crisis, the Executive team demonstrated strong leadership and delivered strategic changes and innovation to help the Society adapt operationally to the uncertainties of Covid-19, safeguard the interests of our members and to continue to deliver an excellent service for them. This has culminated in increased financial and operational resilience for the Society as at 31 December 2020, and more importantly, ensured the Society's with-profit members receive a bonus for 2020 despite the uncertainty in the investment markets. This has been achieved without any government furlough monies or government backed loans.

Directors' Remuneration Report

The Committee, having given this matter careful consideration, recognises the importance of aligning the long-term interest and motivation of the members of the Society and that of the Executive team, who have worked tirelessly throughout the crisis to look after our members. Given the Society's achievements in 2020 and the initiatives the Society has delivered to weather the remaining effects of Covid-19, the Committee with approval from the Board has awarded a bonus to the Executive team and the staff of the Society. The remuneration of the Executive and other members of the Board are set out in the audited table below.

Name	Salary £	Bonus £	Pension Supplement £	Other Benefits[3] £	Total 2020 £	Total 2019 £
Executives						
A M O'Dea	214,279	64,284	28,017	1,445	**308,025**	299,993
N Hossain[1]	108,952	32,686	9,358	1,264	**152,260**	57,082
S Chivers[1]	112,634	33,790	9,632	714	**156,770**	67,543
C Critchlow[2]	140,000	42,000	12,971	9,419	**204,390**	–
	575,865	**172,760**	**59,978**	**12,842**	**821,445**	**424,618**
Non-Executives						
J Hindle	52,275	–	–	1,194	**53,469**	55,100
N Wynn-Evans	34,205	–	–	837	**35,042**	35,281
S Pashby	28,926	–	–	–	**28,926**	31,261
C Mills	28,926	–	–	209	**29,135**	30,328
M Myers[1]	28,926	–	–	1,180	**30,106**	17,429
	173,258	**–**	**–**	**3,420**	**176,678**	**169,399**

Directors' Remuneration Report

Name	Salary £	Bonus £	Pension Supplement £	Other Benefits[3] £	Total 2020 £	Total 2019 £
Individuals serving as director in the prior year						
J Morrissey[4]	–	–	–	–	–	248,598
K Harris[4]	–	–	–	–	–	72,070
R Turner[4]	–	–	–	–	–	13,981
G Ross[4]	–	–	–	–	–	18,221
	–	–	–	–	–	**352,870**
Total	**749,123**	**172,760**	**59,978**	**16,262**	**998,123**	**946,887**

1 Appointed to the Board on 17 June 2019

2 Co-opted to the Board on 1 January 2020 and appointed at the AGM on 16 September 2020

3 Executive Directors receive private medical cover. Mr Critchlow and Non-Executive Directors receive expenses for travel to and from the Group's Head Office. These are included under "Other Benefits" and taxed through PAYE.

4 Resigned in the prior year

Mark Myers
Chairman – Remuneration Committee
7th April 2021

Independent auditor's report to the members of the Shepherds Friendly society limited

Opinion on the financial statements

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

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2020 and of the Group's and Society's excess 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.

We have audited the financial statements of The Shepherds Friendly Society Limited (the "Society") and its subsidiaries (together the "Group") for the year ended 31 December 2020 which comprise the statement of comprehensive income, the balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 **The Financial Reporting Standard applicable in the UK and Republic of Ireland** and FRS103 **Insurance Contracts** (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

BDO LLP were reappointed by the members at the Annual General Meeting on 16 September 2020 to audit the financial statements for the year ended 31 December 2020. The period of total uninterrupted engagement including previous renewals and reappointments of firms within the network is 11 years.

We remain 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. The non-audit services prohibited by that standard were not provided to the Group or Society.

Independent auditor's report to the members of the Shepherds Friendly society limited

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the Group's current plans and budgets, challenging growth assertions and ensuring that movements were in line with justifiable assumptions and movements;
- Reviewing the basis of solvency projections for the next 12 months and ensuring that an appropriate mechanism for calculating solvency had been applied; and
- Challenge and discussion around the latest Own Risk and Solvency Assessment provided by the Society. In addition we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged management as to the future assumptions embedded within the model. We have also ensured that the modelling used for solvency is in line with industry standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]

- 100% (2019 – 100%) of Group technical provisions
- 100% (2019 – 100%) of Group fund for future appropriations
- 98% (2019 – 98%) of Group total assets

Key audit matters ("KAM")

	2020	2019
KAM 1	Valuation of technical provisions	Valuation of technical provisions
KAM 2	Investment valuation	Investment valuation
KAM 3	None	Going Concern

KAM 3 is no longer considered a KAM as the Society is highly solvent and has proven to be resilient to the challenges presented by the coronavirus pandemic.

Materiality

Group financial statements as a whole

£400,000 (2019: £400,000) based on 2% (2019: 2%) of the funds for future appropriations.

[1] These are areas which have been subject to a full scope audit by the Group engagement team

Independent auditor's report to the members of the Shepherds Friendly society limited

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

All audit work was performed directly by the Group audit engagement team with the assistance of appointed experts.

The Audit of the Group financial statements includes the audit of the Society. Its subsidiaries (Financial Advice Network Limited and Financial Advice Website Limited) are exempt from audit under a parental guarantee. For group reporting purposes, the subsidiaries are considered immaterial and hence there was only one significant component being the Society itself. 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 risk of the Society when determining the level of work to be performed.

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 auditor's report to the members of the Shepherds Friendly society limited

Description of Key Audit Matter	Procedures performed to address this risk
Valuation of technical provisions **The Group financial statements include a net technical provision of £72.5 million (2019: £70.6 million), which represents the estimated costs of settling benefits and claims associated with mainly income protection products. This is set out in further detail in Note 2(p) and Note 18.** We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's results and because of the degree of assumptions and estimation underpinning the calculation, which can be highly subjective.	**In assessing the valuation of the technical provisions, we performed the following procedures:** • We have utilised an independent external actuary to report to us on the methodology and assumptions that underpin the calculation of the provision and the accuracy of the calculation itself. We have challenged the conclusions arrived at by our independent actuary and verified that processes are in accordance with both Technical Actuarial Standards (TAS) and industry practices. We have obtained and reviewed the actuarial reports prepared by the Society's actuary and our reviewing actuary and checked that all relevant judgements and estimates have been considered in forming our opinion. • We have reviewed and assessed changes to the assumptions used in the technical provisions to check these are reasonable and in line with acceptable parameters. • We agreed a sample of the policy data provided to the actuaries to underlying policy data held on the Society's administration system to check that the calculations are based on accurate underlying information. • We have agreed, as part of the new business control test, that application details agreed to the members system, checking the underlying policy data is accurately recorded. **Key observations:** • As a result of the procedures performed, we did not identify any matters to suggest that the technical provisions are materially misstated.
Investment valuation **As at 31 December 2020 the Group and Society recognised £91.3m (2019: £87.5m) of investment holdings at fair value (excluding subsidiary investments) comprising:** **a) Land and buildings of £1.1m (2019: £0.9m)** **b) Other financial investments of £90.2m (2019: £86.6m) of which £34.2m (2019: £38.2m) is held to cover linked liabilities.** **c) Investment in unquoted equities of nil (2019: £nil) which were fully impaired in the prior year.** **This is set out in further detail in Note 2(j), 2(k) and Note 13** We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's results and because of the degree of estimation underpinning the valuation of the investments at year-end.	**In assessing the valuation of the investments, we performed the following procedures:** **a) Land and buildings** • We have reviewed the draft agreement for the sale of the property. • We have consulted with our property valuation team on the nature of the revised value basis of valuation and challenged the key assumptions adopted for the valuation. • With the assistance of our property valuation team we have reviewed the estimates of costs and risk inherent in the specific terms in respect of the property sale.

Continues on the following page

Independent auditor's report to the members of the Shepherds Friendly society limited

Description of Key Audit Matter	Procedures performed to address this risk
	b) Other financial investments • We have obtained a detailed analysis of the Society's share of pooled investments on a look through basis under solvency reporting to support the top level pooled fund values disclosed in the accounts. • We have obtained direct confirmation of investments held from the asset manager. • We have compared the market value of investments to third party information. • We have reconciled movement in valuation during the year including as a result of portfolio change and tested a sample of additions and disposals, including gains on realisation, to third party market prices and ultimate receipts. **c) Investment in unquoted equities** • We have reviewed and challenged the rationale for the impairment of the valuation in unquoted equities including assessment based on trading performance of the body and its audit status, obtaining the budget and future cash flow to review the projections of the unquoted equities for the next years and reviewing the relevant information and non-financial information available, including management accounts.
	Key observations: • Based on the work undertaken, we concur with the judgements made by management in determining the valuation of investments.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Independent auditor's report to the members of the Shepherds Friendly society limited

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Society financial statements	
	2020 £'000s	**2019** £'000s	**2020** £'000s	**2019** £'000s
Materiality	400	400	380	380
Basis for determining materiality	**2% of fund for future appropriations** We consider this to be the most relevant benchmark, as it reflects a key measure of the performance of a mutual friendly society and is used to assess the level of free reserves and in determining solvency.		**95% of group materiality** Calculated as a percentage of Group materiality for Group reporting purposes.	
Performance materiality	300	300	285	285
Basis for determining performance materiality	75% of Materiality	75% of Materiality	75% of Materiality	75% of Materiality
	We selected 75% as this was reflective of our perceived risk of the financial statements containing misstatements, considering previous experience of this audit engagement.			

Reporting threshold

We agreed with the Audit and Compliance Committee that we would report to them any misstatements in excess of £8,000 (2019: £8,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent auditor's report to the members of the Shepherds Friendly society limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report of the Board and Financial Statements, 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Friendly Societies Act 1992 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Friendlies Societies Act 1992 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and Society and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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 Friendlies Societies Act 1992 requires us to report to you if, in our opinion:

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

Independent auditor's report to the members of the Shepherds Friendly society limited

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the Group's and 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- agreement of the financial statement disclosures to underlying supporting documentation;
- our responses to significant audit risks (including technical provisions and management override of controls) are intended to sufficiently address the risk of fraudulent manipulation. In particular we engaged an independent external actuary as auditor's expert to review the assumptions and methodology applied by the Society in the valuation of long term business provisions to check the methods utilised are appropriate;
- we addressed the risk of management override of 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;
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the legal and regulatory framework applicable to the Society's operations;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA); and
- review of the Society's Own Risk and Solvency Assessment (ORSA).

Independent auditor's report to the members of the Shepherds Friendly society limited

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, 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, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

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
For and on behalf of BDO LLP, Statutory Auditor, London, UK
8th April 2021

BDO LLP is a limited liability partnership registered in England and Wales
(with the registered number OC305127)

Statement of Comprehensive Income
for year ended 31 December 2020

		Group		Society	
Technical Account: Long Term Business	**Notes**	**2020** £'000s	**2019** £'000s	**2020** £'000s	**2019** £'000s
Income					
Earned Premiums, net of reinsurance					
Gross Premiums written	7	27,121	23,571	27,121	23,571
Outward Reinsurance premiums		(1,065)	(857)	(1,065)	(857)
Net Premiums		**26,056**	**22,714**	**26,056**	**22,714**
Investment Income					
Land and Buildings	8	84	157	84	157
Other Investments	8	-	469	39	497
(Losses)/Gains on the realisation of Investments	8	(83)	3,402	(83)	3,402
Unrealised (losses)/gains on Investments	8	(4,667)	2,182	(4,667)	2,182
		(4,666)	**6,210**	**(4,627)**	**6,238**
Other technical income	**2(h)**	**258**	**392**	–	–
Total technical income		**21,648**	**29,316**	**21,429**	**28,952**
Expenditure					
Claims incurred, net of reinsurance					
Claims paid	18(a)	11,394	14,025	11,394	14,025
Change in the provision for claims	18(a)	104	154	104	154
		11,498	**14,179**	**11,498**	**14,179**
Changes in technical provisions, net of reinsurance					
Movement on long-term business provision net of reinsurance	18(a)	(512)	3,873	(512)	3,873
Movement on provision for Linked Liabilities Investment Contracts	18(b)	(4,239)	5,662	(4,239)	5,662
Movement on other technical provisions	18(c)	340	95	340	95
		(4,411)	**9,630**	**(4,411)**	**9,630**
Net operating expenses					
Other operating expenses	9	10,290	11,475	10,290	11,475
Investment Expenses		112	59	112	59
		10,402	**11,534**	**10,402**	**11,534**
Other technical charges	2(h)	**322**	**361**	–	–
Tax on other technical net income	12	15	(7)	–	–
Total technical expenditure		**17,826**	**35,697**	**17,489**	**35,343**
Excess/(Deficit) of income over expenditure		3,822	(6,381)	3,940	(6,391)
Transfer (to)/from Fund for Future Appropriations	17	(3,822)	6,381	(3,940)	6,391
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	(292)	(85)	(292)	(85)
Transfer from/(to) Fund for Future Appropriations	17	292	85	292	85
Total other comprehensive income for the year		–	–	–	–

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

The attached notes on pages 53 to 77 form part of these financial statements.

Statement of Financial Position

as at 31 December 2020

	Notes	Group 2020 £'000s	Group 2019 £'000s	Society 2020 £'000s	Society 2019 £'000s
Assets					
Investments					
Land and buildings	13(a)	1,112	881	1,112	881
Investment in Subsidiaries	13(c)	-	-	500	500
Other Financial Investments at fair value	13(b)	55,994	48,391	55,994	48,391
		57,106	**49,272**	**57,606**	**49,772**
Assets held to cover linked liabilities	13(b)	34,222	38,220	34,222	38,220
		91,328	**87,492**	**91,828**	**87,992**
Debtors: amounts receivable within one year					
Debtors arising out of direct insurance operations	14	15	21	15	21
Debtors arising out of reinsurance operations	14	27	20	27	20
Other Debtors	14	621	343	731	752
		663	**384**	**773**	**793**
Other Assets					
Tangible assets	15	392	435	392	435
Intangible assets	16	525	322	525	322
Cash at bank and in hand		2,971	1,602	2,457	645
		3,888	**2,359**	**3,374**	**1,402**
Prepayments and accrued income		**288**	**269**	**240**	**231**
Long Term Business Provision for protection benefit	18(a)	**47,365**	**41,526**	**47,365**	**41,526**
Reinsurers' share of technical provisions	18(a)	**12,467**	**6,646**	**12,467**	**6,646**
Total assets		**155,999**	**138,676**	**156,047**	**138,590**
Liabilities					
Fund for Future appropriations	17	**20,726**	**17,196**	**20,838**	**17,190**
Technical Provisions					
Long Term Business Provision for benefits excluding protection	18(a)	79,533	68,385	79,533	68,385
Technical Provision for Linked Liabilities - Investment Contracts	18(b)	34,222	38,220	34,222	38,220
Other technical provisions	18(c)	17,323	10,998	17,323	10,998
Claims outstanding		1,270	1,166	1,270	1,166
		132,348	**118,769**	**132,348**	**118,769**
Creditors					
Creditors arising out of direct insurance operations		51	46	51	46
Other creditors, including taxation and social security	19	927	960	879	888
		978	**1,006**	**930**	**934**
Accruals and deferred income		**1,143**	**1,128**	**1,127**	**1,120**
Pension scheme liability	21	**804**	**577**	**804**	**577**
Total liabilities		**155,999**	**138,676**	**156,047**	**138,590**

The attached notes on pages 53 to 77 form part of these financial statements.

The financial statements on pages 51 to 77 have been approved by the Board on 7th April 2021.

Joanne Hindle
Chairman

Ann-Marie O'Dea
Chief Executive

Notes to the Financial Statements

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 and a member of the Association of Financial Mutuals. 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 two wholly owned subsidiaries, together "the Group". The principal activities of each company in the Group are detailed in the Directors' report on page 16.

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 by the Society 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 Society, being a mutual life assurance company, is also exempt from the requirements under FRS 102 to produce a group cash flow statement.

The financial statements have been prepared on the historical cost basis, except for the revaluation of investment land and buildings and financial instruments. 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 preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires 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 presented in sterling which is the functional currency of the Society and the Group, and rounded to the nearest £'000.

(b) Going Concern accounting policy

There are on-going uncertainties caused by Covid-19 and government-imposed restrictions to manage the virus that will continue to result in temporary but potentially significant impact to the Society's investments, insurance exposure and income from new business. At the present time, they are less severe other than under most severe stress scenarios modelled by the Society. After making enquiries of management actions to manage these risks that includes operational cost savings and taking into consideration the capital and liquidity position of the Society, the Directors have a reasonable expectation that the Group and the Society have 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

Subsidiaries are entities controlled by the Group by virtue of the Society owning more than 50% of the voting power of the entity.

The financial statements of the Group comprise the assets, liabilities, and income and expenditure account transactions of the Society and its subsidiaries. The activities of the Society and its subsidiaries are accounted for in the Statement of Comprehensive Income. The on-going results of the trading subsidiary, Financial Advice Network, are included with Other Technical Income and Other Technical Charges. The net results are included in the Fund for Future Appropriations for the Group. Intragroup balances, transactions and unrealised gains and losses on intragroup transactions are eliminated in full.

(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. Under our assessment, investment products listed in Note 6 have been classified as "participating investment contracts". The unit-linked products and fixed rate bond are classified as "non-participating investment contracts".

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.

Non-participating Investment Contracts
Premiums relating to non-participating 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 and unrealised gains or 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.

Non-participating Investment Contracts

Amounts payable on withdrawals, maturities and surrenders of non-participating investment contracts are accounted for as deductions from the carrying value of the liability in the Statement of Financial Position.

(h) Other Technical Income and Other Technical Charges

Other technical income and charges in the Group refers to income and expenditure incurred by the trading 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 life and endowment 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.

(j) Investment Land and Buildings

Investment land and buildings, 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 land and buildings are included in the Technical Account 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, conducts a full valuation of the Group's Investment land and buildings 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 or market value has not been established in an arm's length transaction, a desktop valuation or the offer price in an arm’s length transaction is used to determine the fair value.

(k) Financial Investments

Upon initial recognition, financial investments are classified as financial assets at fair value through profit or loss.

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 that reference to recent arm's length transaction for identical assets.

A financial asset is de-recognised when the contractual rights to receive the cash flows from the asset have expired or when they have been transferred and the Group has also transferred substantially all of the risks and rewards of ownership.

(l) Investment in Subsidiaries

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

(m) Tangible and Intangible 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 computer software is amortised between two and four years.
- Property Improvements associated with rental leases are amortised over the length of the lease.

(n) 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.

(o) 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.

(p) 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 for the unit linked liabilities is equal to the value of the assets to which the contracts are linked. The provision is measured on a basis consistent with the basis of valuing the corresponding assets, which is at fair value through profit of loss.

Other Technical Provision
The provision for fixed rate bonds issued is initially measured at fair value, being the consideration received. Subsequently, measurement is at amortised cost using the effective interest method.

(q) Reinsurance

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk on insurance contracts with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts set out in note 2(d) are classified as reinsurance contracts held.

Debtors arising out of reinsurance operations represent short-term payments due from reinsurers. The reinsurers' share of technical provisions are longer term receivables that are dependant on the expected claims and benefits arising under the related reinsured insurance contracts. They are measured on a consistent basis to the reinsured insurance contracts.

(r) 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.

(s) 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.

(t) 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.

(u) 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.The assessment is based on the amount payable when the insured event occurs. See note 2(d).

(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 Land and Buildings
The investment land and buildings valuation contains a number of market standard assumptions upon which an independent, professionally qualified valuer or purchaser has based their valuation of the Group's property.

(ii) Valuation of Group's financial assets and liabilities
The fair value measurement could include non-market assumptions in respect of level 3 assets and liabilities. Note 13(d) explains the assumptions used in the valuation of Level 3 assets.

(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 and methodology that reflect the best estimate at the time. Note 6 sets out the assumptions underlying the valuations. The assumptions are based on recent observed experience to 31 December 2020.

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 Prudential Regulation Authority (PRA) and 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 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 Capital Management

The Group 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 6.

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

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

The capital requirement in the 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 Group 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.

The capital statement below covers all of the Society's 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.

	Society	
	2020 £'000s	**2019** £'000s
Fund for Future Appropriations	20,838	17,190
Regulatory Solvency Adjustments (note 4(d))	(2,675)	(1,940)
Total available capital resources (unaudited)	**18,163**	**15,250**

(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

An analysis of the change in capital resources is set out below:

	2020 £'000s	**2019** £'000s
Capital resources at 1 January	**15,250**	**22,775**
Changes in available capital due to:		
Model changes	834	(13,574)
Assumption changes	372	714
Investment returns (credited)/not credited to policyholders	(813)	250
Policy movements	(702)	(10,945)
New business	2,919	10,457
Change in risk margin	780	7,105
Change in current liabilities	(83)	(1,258)
Change in pension scheme	(227)	(42)
Other	(167)	(232)
Capital resources 31 December	**18,163**	**15,250**

In the prior year, the Society undertook an exercise to strengthen the accuracy of the modelling used to estimate future cashflows on the Society's business. This was part of the Society's continued development of a robust infrastructure to help it achieve its business plans over the coming years. The effect of that exercise resulted in a downward adjustment to the value of the Society's income protection business and this is the main reason for the impact of model changes noted in the analysis above.

5 Risk Management and Control

This note provides information on the main risks arising from financial instruments 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.
- A strategic 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 an online 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. As a result of the ongoing Covid-19 outbreak, outlook on the Society's material risks is temporarily more significant because of the uncertainty. Management are continuing to manage the potential financial impact of those risks by reviewing the Group's measures documented in the Board approved Capital Management and Restoration Plan. The following are the material risks arising from financial instruments that have been identified by the Group:

(i) New Business Risk

The Group should generate sufficient volumes of new business to ensure it can continue to fund ongoing operations and generate the returns and benefits reasonably expected by its members. 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.

The Society has adjusted its expected future new business volumes taking into consideration its experience of the Covid-19 disruptions over 2020. The Society continued to generate new business volumes throughout Covid-19 and the Society still expects new business in the future to contribute to the Funds for Future Appropriations and cashflow.

(ii) Insurance Risk

The following are the primary insurance risks in the business:

- 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.

The Group 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 Group, for the Over 50s book of business, has also used reinsurance to transfer most of the mortality risk to third-party reinsurers.

The Group sells a range of products to generate distributable surplus for its members, and therefore lapse rates on new business issued is carefully managed. If this is higher than planned, then a lower level of surplus will emerge from the book of business. The Group strives to deliver great service to its policyholders, to encourage high levels of policy retention.

Note 18 sets out the Technical provisions and the changes over the year. A sensitivity analysis of the Group's results to changes in insurance risks is included in Note 5(c). The nature of the Society's protection business is such that it is exposed to the risk of higher sickness claims and lapses as a result of Covid-19. The Society has assessed the potential impact of these additional claims and lapses over 2021 and included those within its solvency and liquidity projections. Additionally, the Society has reviewed its internal claims management processes to reflect the likely nature of claims arising.

(ii) Financial Risks (liquidity risk, market risk, credit 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 and currency exchange risk, and credit risk which include credit spread risk and 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.

(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.

The following tables show the maturity analysis for the contracted terms of the Group's in force insurance and investment contract liabilities. The Group has adopted a close matching of assets to its liabilities. The Group holds sufficient cash reserves to meet its liabilities as they fall due and it has access to its investment funds should additional cash is required.

2020 Cash flows (undiscounted)						
	<1 year £'000s	2–5 years £'000s	6–10 years £'000s	11–15 years £'000s	>15 years £'000s	Total £'000s
Group & Society						
Long term business provision	(2,177)	939	(6,492)	322	4,622	**(2,786)**
Linked liabilities	(1,299)	(4,819)	(28,175)	-	-	**(34,223)**
Other technical provisions	-	(18,976)	-	-	-	**(18,976)**
Net cash (outflow)/inflow	**(3,406)**	**(22,856)**	**(34,667)**	**322**	**4,622**	**(55,985)**

2019 Cash flows (undiscounted)	<1 year £'000s	2–5 years £'000s	6–10 years £'000s	11–15 years £'000s	>15 years £'000s	Total £'000s
Group & Society						
Long term business provision	(4,190)	(1,929)	(9,723)	(593)	2,199	**(14,236)**
Linked liabilities	(542)	(2,755)	(34,923)	-	-	**(38,220)**
Other technical provisions	-	(12,435)	-	-	-	**(12,435)**
Net cash (outflow)/inflow	**(4,732)**	**(17,119)**	**(44,646)**	**(593)**	**2,199**	**(64,891)**

(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 value of investment assets or the income from those assets. Covid-19 has increased market risks because of its potential to temporarily impact global growth rates through the disruption of supply chains, as well as the value of investment assets that may be perceived as being adversely impacted from a slow down of the global economy. Sources of market risks are set out below. A sensitivity analysis of the Group's results to changes in market risks is included in Note 5(c).

The Board and the Board Risk Committee oversees investment activity, monitors the investment manager's performance, and ensures that the investment policy are adhered to. In uncertain market conditions, investment performance is closely monitored daily. 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 in accordance with the Board approved Investment Policy. The Group employs an external investment manager to manage most of the Group's assets, but the Board maintains oversight to ensure 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 ensures that assets are invested in a manner consistent with the requirements set out in the Principles and Practices of Financial management (PPFM).

(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 land and buildings. The Group only holds a small proportion of its total investment assets in directly held properties.

(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.

(d) Exchange Rate Risk

The Group and the Society do not have any material exposure to foreign exchange rate risk.

(vi) Credit Risk

Credit Spread Risk

The Group and Society do not directly hold financial assets subject to credit spread risk.

Counterparty Default Risk

Counterparty default risk is the risk of loss incurred by the Group if a counterparty fails to perform its contractual financial obligations, including failing to perform them in a timely manner. Material counterparties include intermediaries, reinsurers and investment management provider. To mitigate this risk, the Group performs appropriate due diligence before entering into the arrangement and on-going monitoring over the term of the arrangement in accordance with the Group's Third Party Management and Outsourcing Framework.

The following table shows an analysis of the credit quality of assets held by the Group subject to credit risk, using credit ratings issued by external rating agencies. 'Not rated' assets are assets held by counterparties that are not rated by external rating agencies.

	2020		2019	
	£'000s	Credit rating	£'000s	Credit rating
Reinsurance assets	12,494	AA	6,667	AA
Cash at bank	2,971	A	1,602	A
Trade and other debtors	636	Not rated	365	Not rated
	16,101		**8,633**	

As at 31 December 2020, trade and other debtors that were past due but not yet impaired was £369,000 (2019: £71,300). No other amounts were past due as at the date of the Statement of Financial Position.

(vii) Subsidiaries Risk

The Society's subsidiary, Financial Advice Network Limited (the "Network") acted as a distributor of some of the Society's insurance contracts. At the end of 2019 the Network was trading profitably. Management announced the decision on 20 April 2020 to discontinue the activities of the Network and management is in the process of winding down its activities.

The Society's other subsidiary, Financial Advice Website Limited operates as service company for the Society and therefore has limited exposure to risks.

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

Group & Society		2020	2019
Variable	Change in Variable %	Change in Available Capital and Profit £'000s	Change in Available Capital and Profit £'000s
Insurance risks			
Change in mortality (note 6(d))	(20%)	**(2,812)**	(2,834)
Change in morbidity (%CMIR12) (note 6(e))	+25% inceptions and -20% recoveries	**(13,241)**	(10,775)
Change in expenses (note 6(c))	+10%	**(3,414)**	(2,582)
Change in lapses (note 6(f))	+10%	**(5,140)**	(4,813)
Change in lapses (note 6(f))	(10%)	**13,739**	11,157
Market risks			
Change in fixed interest yields	PRA interest rate up	**(5,825)**	(5,014)
Change in fixed interest yields	PRA interest rate down	**285**	1,940
Fall in equity values	(10%)	**(1,256)**	(1,550)
Fall in property values	(10%)	**(111)**	(88)

6 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.

(a) 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 unitss
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, net of reinsurance
Individual Saving Accounts (ISAs), including Junior ISAs	Asset share plus cost of guarantee
Income Protection Business	
Adult Holloway, Young Holloway, University Savings, Junior Moneymaker, SIPP and other IP contracts	Gross premium with members' accounts (where relevant) valued equal to asset shares plus cost of guarantees and sickness benefit valued using an inception/recovery average weeks claim approach The pure IP business is net of reinsurance where appropriate. Reserves for the closed book of Premier Protect business are calculated using individual case estimates.

(b) Discount Rate of Interest

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

(c) Expenses

This is the risk that expenses associated with policyholder contracts are higher than expected. 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.

(d) Mortality

This is the risk that policyholders live for longer than expected resulting in increased liabilities for life insurance policies. Mortality rates are set by reference to standard actuarial tables by class of business. Mortality assumptions are set out in the following table.

	2020	2019
Life Business excl. Over 50s	100% AXC00	65% A6770
Over 50s	200% AXC00	200% AXC00
Income Protection	100% AXC00	40% A6770

(e) Morbidity

This is the risk that policyholders make claims more frequently or for a longer period of time than expected resulting in increased liabilities for protection policies. The following table sets out the sickness assumptions for each class of Income Protection business at the end of 2020 and those used at the end of 2019. Rates are set for Adult Holloway, Young Holloway, and SIPP Holloway by reference to 100% inceptions and recoveries of CMIR12 tables. For non-profit Income Protection, the rates are further refined as below.

	2020	2019
Adult Holloway	25% inceptions	25% inceptions, 200% recoveries
Young Holloway	10% inceptions	10% inceptions, 200% recoveries
SIPP Holloway	100% inceptions 10% - 40% of CMIR12 inception rates	100% inceptions, 200% recoveries 50% according to CMIR12 inception rates
Non-profit Income Protection	40% - 225% of CMIR12 recovery rates for all Health business	105% for healthy lives and 200% for claims in payment according to CMIR12 recovery rates

(f) Persistency

This is the risk that lapse rates are different than expected resulting in increased liabilities. Realistic lapse rates based on actual experience for each product.

(g) Options and Guarantees

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

7 Earned Premium Analysis.

Society & Group	2020 £'000s		2019 £'000s	
Regular Premiums				
Insurance contracts	8,540		6,995	
Participating investment contracts	9,863		8,533	
		18,403		**15,528**
Single Premiums				
Participating investment contracts	8,718		8,043	
		8,718		**8,043**
Gross premium written		27,121		23,571
Outward reinsurance premiums		(1,065)		(857)
Earned Premiums		**26,056**		**22,714**
Of which earned in:				
United Kingdom		26,045		22,702
Republic of Ireland		11		12

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

Contributions of £6,380,000 in 2020 (2019: £11,280,000) relating to non-participating investment contracts are not recognised in the Technical Account but recorded as part of net contributions to investment contract liabilities (note 18(b)) and other technical provisions in the Statement of Financial Position (note 18(c)).

8 Investment income

	Group		Society	
	2020 £'000s	**2019** £'000s	**2020** £'000s	**2019** £'000s
Rental income from land and buildings	84	115	84	115
Income from property investment funds	–	42	–	42
Income from financial assets held at fair value	–	436	–	436
Interest income from cash and cash equivalents	–	36	–	36
Other investment income	–	(3)	39	25
Realised gains/(losses) on financial assets disposed during the year	(83)	3,402	(83)	3,402
Fair value (losses)/gains on revaluation of land and buildings	231	(1,000)	231	(1,000)
Fair value (losses)/gains on revaluation of financial assets	(4,898)	3,182	(4,898)	3,182
	(4,666)	**6,210**	**(4,627)**	**6,238**

9 Society and Group Net Operating Expenses

Society & Group		
	2020 £'000s	**2019** £'000s
Acquisition costs	9,200	10,847
Administration expenses	2,177	2,456
Reinsurance commission	(1,087)	(1,828)
	10,290	**11,475**

Included in the operating expenses are:

Society & Group		
	2020 £'000s	**2019** £'000s
Auditor's remuneration for financial statements audit services	86	65
	86	**65**

The cost of the audit services for the subsidiaries of £nil (2019: £nil) has been included in Other Technical Charges as both subsidiaries are exempt from the audit requirements.

10 Staff Costs

The average monthly number of persons employed by the Group and the Society in the year was as follows:

	2020	**2019**
Board Members	9	9
Staff - Acquisition	44	43
Staff - Administration	19	18
	72	**70**

The aggregate staff payroll costs including directors' remuneration were as follows:

	2020 £'000	**2019** £'000
Wages and salaries	3,238	3,044
Social security costs	361	325
Pension costs	392	428
	3,991	**3,797**

Details of Directors' emoluments are contained in the Directors' Remuneration Report on pages 38 to 41.

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. None of the Society's directors are members of the Society.

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

Mr C Critchlow (Chief Actuary)

1. Mr C Critchlow BsC FIA was the Chief Actuary during the year and prior year. Prior to 1 October 2019, Mr Critchlow was also the Society's With-Profits Actuary.
2. Mr Critchlow was co-opted as an Executive Director for the Society as at 1 January 2020. In the prior year, Mr Critchlow was an employee of OAC plc. Neither Mr Critchlow, his wife or his children were members of the Society in 2020 or the prior year.
3. Mr Critchlow's remuneration received as an employee to the Society has been disclosed in the Directors' Remuneration Report. His remuneration includes discretionary performance bonus, pension and other benefits in kind, in addition to his annual salary.

Mrs C Spinks (With-Profits Actuary)

1. Mrs C Spinks FIA was appointed as the With-Profits Actuary as at 1 October 2019. Mrs Spinks is an employee of OAC plc in 2020 and in the prior year. Neither Mrs Spinks, her husband or her children were members of the Society at any time during 2020 and the prior year.
2. Neither Mrs Spinks, her husband or children had any financial interest in any transaction with the Society during 2020 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. The amount payable in this respect amounted to £241,614 (2019: £317,468). No other benefits, emoluments, pensions or compensaton was paid.
4. Mrs Spinks did not receive, and will not receive, any other financial benefit from the Society.

12 Taxation

	Group		Society	
	2020 £'000s	**2019** £'000s	**2020** £'000s	**2019** £'000s
Corporation Tax				
Policyholder tax charge/ (credit)	–	-	–	-
Deferred Tax				
Timing differences, origination and reversal	15	(7)	–	–
Total tax charge/(credit)	**15**	**(7)**	**–**	**–**

The tax charge for the Group is £15,000 (2019: credit £7,000).

The applicable UK corporation tax rate is 19% for the subsidiaries (2019: 19%). In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 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% (2019: 20%).

There is an unrecognised deferred tax asset in Financial Advice Network Limited in respect of fixed asset timing differences and losses. There is an unrecognised deferred tax asset in Financial Advice Website Limited in respect of losses.

As at 31 December 2020, the Group did not hold any provisions for uncertain tax positions.

Reconciliation of Current Year Tax Charge	Group		Society	
	2020 £'000s	**2019** £'000s	**2020** £'000s	**2019** £'000s
Surplus/(Deficit) of income over expenditure before tax	3,545	(6,743)	3,648	(6,476)
Tax on surplus/(deficit) at 19% (2019: 19%)	673	(1,230)	693	(1,230)
Factors affecting tax charge:				
Accounting profit not subject to policyholder tax	(692)	1,230	(693)	1,230
Accelerated capital allowances	–	–	–	–
Movement in unprovided deferred tax asset	19	(7)	–	–
Prior year tax adjustment	15	–		
Total tax charge/(credit)	**15**	**(7)**	**–**	**–**

The tax charge/(credit) in respect of the Group is for Financial Advice Network Limited.

The Society has an unrecognised deferred tax asset on deductible expenses carried forward of £853,000 (2019: £724,000). It is not currently considered probable that these losses will be utilised and therefore the deferred tax asset continues not to be recognised.

13 Investments

(a) Land and buildings (Group and Society)

	Cost £'000s 2020	Market Valuation £'000s 2020	Cost £'000s 2019	Market Valuation £'000s 2019
As at 1 January	1,597	881	1,597	1,881
Gains/(losses) from revaluation in the year	–	231	–	(1,000)
	1,597	**1,112**	**1,597**	**881**

A full valuation of the investment land and building is performed at least once every three to five years. In between the full valuations, a 'desktop' valuation is undertaken. Valuations are performed by Matthews and Goodman LLP, Chartered Surveyors. A full valuation was performed as at 31 December 2019 based on its existing use and using market equivalent rents. The valuation at 31 December 2020 has been based on its alternative use as determined in an arm's length transaction with a purchaser.

(b) Other Financial Investments at Fair Value through profit or loss (Group and Society)

	Cost £'000s 2020	Market Valuation £'000s 2020	Cost £'000s 2019	Market Valuation £'000s 2019
UK unlisted equities (note 13(d))	3,148	–	3,148	–
Pooled investments	56,601	55,994	47,801	48,391
	59,749	**55,994**	**50,949**	**48,391**
Assets held to cover Linked Liabilities	25,167	34,222	25,450	38,220
	84,916	**90,216**	**76,399**	**86,611**

See note 13(d) for fair value measurement techniques applied to financial assets. Following a review of the trading performance of the unlisted investments as at 31 December 2020, the fair value of the equities has been kept unchanged. The trading performance of the unlisted entity and its impact on the fair value of the equities are reassessed annually.

(c) Investment in Subsidiaries

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 (trading company operating as a service company). Both subsidiaries have a registered office of Haw Bank House, High Street, Cheadle SK8 1AL, United Kingdom.

Both subsidiaries are exempt from the requirements of Companies Act 2006 relating to the audit of their individual financial statements by virtue of s479a. The Society provided a guarantee under s479C of Companies Act 2006 to both subsidiaries, Financial Advice Network Limited (Registered number 05378813) and Financial Advice Website Limited (Registered number 08088016) for the year ended 31 December 2020.

	Shares in Subsidiary £'000s
As at 1 January and 31 December 2020	500

(d) 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. Level 3 financial assets are fair valued by reference to arm's length transaction for identical assets at the valuation date with consideration of the trading performance of the investment.

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.

	Group and Society 2020			Group and Society 2019		
Financial Assets	**Level 1** £'000s	**Level 2** £'000s	**Level 3** £'000s	**Level 1** £'000s	**Level 2** £'000s	**Level 3** £'000s
Assets held to cover linked liabilities	34,222	–	–	38,209	11	–
Pooled Investments	–	55,994	–	–	48,391	–
	34,222	**55,994**	**–**	**38,209**	**48,402**	**–**

14 Debtors: Amounts receivable within one year

	Group		Society	
	2020 £'000s	**2019** £'000s	**2020** £'000s	**2019** £'000s
Debtors arising out of direct insurance operations	15	21	15	21
Debtors arising out of reinsurance operations	27	20	27	20
Other debtors	621	336	612	303
Amounts owed by group undertakings	–	–	119	449
Deferred tax asset (note 12)	–	7	–	–
	663	**384**	**773**	**793**

15 Tangible assets

	Society Property Improvement	Society Fixtures & Fittings	Society Total	Group Total
	£'000s	£'000s	£'000s	£'000s
Cost				
At 1 January 2020	392	207	599	611
Additions	–	14	14	14
Disposals	–	–	–	–
At 31 December 2020	**392**	**221**	**613**	**625**
Depreciation				
At 1 January 2020	32	132	164	176
Provided for in the year	27	30	57	57
Disposals	–	–	–	–
At 31 December 2020	**59**	**162**	**221**	**233**
Net book value				
31 December 2020	**333**	**59**	**392**	**392**
31 December 2019	360	75	435	435

There are no assets acquired during 2020 using a finance lease arrangement (2019: £nil).

16 Intangible assets

	Society Software	Society Total	Group Total
	£'000s	£'000s	£'000s
Cost			
At 1 January 2020	1,371	1,371	1,638
Additions	363	363	363
Disposals	–	–	–
At 31 December 2020	**1,734**	**1,734**	**2,001**
Depreciation			
At 1 January 2020	1,049	1,049	1,316
Provided for in the year	160	160	160
Disposals	–	–	–
At 31 December 2020	**1,209**	**1,209**	**1,476**
Net book value			
31 December 2020	**525**	**525**	**525**
31 December 2019	322	322	322

17 Movements in Fund for Future Appropriations (Group and Society)

	2020	2020	2019	2019
	£'000s	£'000s	£'000s	£'000s
Fund for Future Appropriations (Group)				
Balance at 1 January		17,196		23,662
Transfer from/(to) Technical Account	3,822		(6,381)	
Transfer to Other Comprehensive Income	(292)		(85)	
		3,530		(6,466)
Balance at 31 December		**20,726**		**17,196**
Fund for Future Appropriations (Society)				
Balance at 1 January		17,190		23,666
Transfer to Technical Account	3,940		(6,391)	
Transfer to Other Comprehensive Income	(292)		(85)	
		3,648		(6,476)
Balance at 31 December		**20,838**		**17,190**

18 Technical Provisions (Group and Society)

(a) Long Term Business Provision

	Group and Society 2020			Group and Society 2019		
	Gross £'000s	Reinsurers' share £'000s	Net £'000s	Gross £'000s	Reinsurers' share £'000s	Net £'000s
Balance at 1 January	26,859	(6,646)	**20,213**	16,340	-	**16,340**
Reinsurance arrangement on existing policies	-	-	**-**	-	(5,868)	**(5,868)**
Premiums received	27,121	(1,065)	**26,056**	23,571	(857)	**22,714**
Claims incurred	(12,321)	823	**(11,498)**	(14,859)	680	**(14,179)**
New business	(1,799)	(2,850)	**(4,649)**	(16,618)	(452)	**(17,070)**
Experience, assumptions and other changes	(6,858)	(2,729)	**(9,587)**	4,851	(149)	**4,702**
Changes in methodology (note 4(d))	(834)	-	**(834)**	13,574	-	**13,574**
Balance at 31 December	**32,168**	**(12,467)**	**19,701**	**26,859**	**(6,646)**	**20,213**
Balance at 31 December comprises:						
Long-Term Business Provision for protection benefit	(47,365)	-	**(47,365)**	(41,526)	-	**(41,526)**
Reinsurers' share of technical provisions	-	(12,467)	**(12,467)**	-	(6,646)	**(6,646)**
Long Term Business Provision for benefits excluding protection	79,533	-	**79,533**	68,385	-	**68,385**
	32,168	**(12,467)**	**19,701**	**26,859**	**(6,646)**	**20,213**

In 2019, the Society entered into a reinsurance arrangement for its Over50s book of business.

Further details on the movement in the year is provided in the Financial Performance Report on page 7.

(b) Linked Liabilities - Investment contracts

	2020	2020	2019	2019
	£'000s	£'000s	£'000s	£'000s
Balance at 1 January		38,220		32,364
Net contributions from members		241		194
Gains/(losses) on assets held for linked liabilities	(3,784)		6,162	
Fees deducted	(455)		(500)	
Movement on linked liabilities in Technical Account		(4,239)		5,662
Balance at 31 December		**34,222**		**38,220**

(c) Other technical provisions

	2020	2019
	£'000s	£'000s
Balance at 1 January	10,998	–
Net contributions from members	5,985	10,903
Interest attributed to policyholders in the year	340	95
Balance at 31 December	**17,323**	**10,998**

The Society issued fixed rate bonds that meet the classification criteria for investment contracts and therefore presented as Other Technical Provisions.

19 Other creditors, including taxation and social security

	Group		Society	
	2020 £'000s	**2019** £'000s	**2020** £'000s	**2019** £'000s
Amounts due to members	381	462	381	462
Taxation and social security	118	95	118	95
Other creditors	428	403	380	331
	927	**960**	**879**	**888**

20 Operating Rent & Lease Commitments

	Group and Society	
	2020 £'000s	**2019** £'000s
Total payable under non-cancellable operating leases are as follows:		
Amounts falling due < 1 year	97	97
Amounts falling due 2 - 5 years	510	436
Amounts falling due 5 years +	1250	1423
	1,857	**1,956**

Other operating expenses in the Statement of Comprehensive Income includes operating lease payments of £90,000 for 2020 (2019: £101,000).

21 Pension Scheme Obligations (Group and Society)

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 2020 by a qualified independent actuary. The assumptions used were as follows:

	Year ended 31 December 2020		Year ended 31 December 2019	
Actuarial assumptions				
Discount Rate	1.20% pa		1.90% pa	
Retail price inflation	2.80% pa		3.00% pa	
Consumer price inflation	1.90% pa		1.80% pa	
Salary Increases	n/a		n/a	
Rate of increases of pensions in payment • CPI max 3% • RPI max 5% • RPI max 2.5%	 1.80% pa 2.80% pa 2.10% pa		 1.70% pa 3.00% pa 2.20% pa	
Rate of increase for deferred pensioners	1.90% pa		1.80% pa	
Demographic assumptions				
Mortality (Pre retirement)	As per post retirement		As per post retirement	
Mortality (Post retirement)	S3PA_M CMI_2019_M/F [1.00%] (yob)		102% (males) / 110% (females) of S3PA CMI_2018_M/F [1.00%] (yob)	
Life Expectancies	**Male**	**Female**	**Male**	**Female**
Life expectancy for an individual aged 65 in the year	21.1 years	23.5 years	21.5 years	23.2 years
Life expectancy at age 65 for an individual aged 45 in the year	22.2 years	24.7 years	22.5 years	24.3 years

(b) Assets

The assets of the Scheme are invested as follows:

	31 December 2020		31 December 2019	
	Market Value £'000s	% of total Scheme assets	Market Value £'000s	% of total Scheme assets
Asset Class				
Gilts	1,135	29%	1,024	27%
Cash	64	2%	46	1%
Diversified Growth Funds	1,163	30%	1,122	30%
Diversified Credit Funds	1,184	30%	1,275	34%
Equities	358	9%	318	8%
	3,904	**100%**	**3,785**	**100%**

The actual return on assets over year was a gain of £255,000 (2019: gain of £315,000).

(c) Reconciliation to the Statement of Financial Position

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000s	£'000s
Market Value of assets	3,904	3,785
Present Value of liabilities	(4,708)	(4,362)
Surplus/(Deficit) in the scheme	(804)	(577)
Pension asset/(liability) recognised in the Statement of Financial Position before allowance for deferred tax	**(804)**	**(577)**

(d) Reconciliation of Scheme Assets and Defined Benefit Obligation ("DBO")

	Assets	DBO	Total
	£'000s	£'000s	£'000s
As at 1 January 2020	3,785	(4,362)	**(577)**
Benefits paid	(211)	211	–
Employer contributions	75	-	**75**
Interest income/(cost)	71	(81)	**(10)**
Remeasurement gains/(losses):			
• Actuarial gains/(losses): changes in assumptions	–	(476)	**(476)**
• Return on plan assets excluding interest income	184	–	**184**
As at 31 December 2020	**3,904**	**(4,708)**	**(804)**

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

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000s	£'000s
Technical Account:		
Total Service Cost comprising past service cost	–	–
Net Interest	10	13
Amount charged to operating expenses in the Technical Account	**10**	**13**
Other comprehensive income:		
Total Service Cost comprising past service cost		
Actuarial gains/(losses) on liabilities	(476)	(303)
Return on assets excluding amount included in net interest	184	218
(Loss)/gain recognised in Other Comprehensive Income	**(292)**	**(85)**
Total amount charged/(credited) to Statement of Comprehensive Income	**302**	**98**

(f) Future Funding Obligation

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

The last actuarial valuation of the Scheme was performed by the Actuary for the Trustee as at 5 April 2018. The Society agreed to pay £75,000 per annum for 1 year and 11 months from 1 April 2019 to pay off the deficit. The Society therefore is required to pay £12,500 to the Scheme during the financial year beginning 1 January 2021. The Society will make further payments in 2021 and amounts payable will be dependent on the forthcoming actuarial valuation in April 2021.

Glossary

Annual Premium Equivalent (APE)
An industry standard measure of amount of new premiums written and is equal to 100% of annualised regular premiums plus 10% of single premiums.

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
Financial Reporting Standards issued by the the Accounting Standards Board.

Fund for Future Appropriation (FFA)
The Statement of Financial Position item required by Appropriation, FFA 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.

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

Pooled investments
Also known as collective investment schemes, monies from investors are put into a large fund that is spread across many investments and managed by a professional fund manager.

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 unrealised is sold and is the difference between the sale gains or losses 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 policyholders.

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 6 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

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