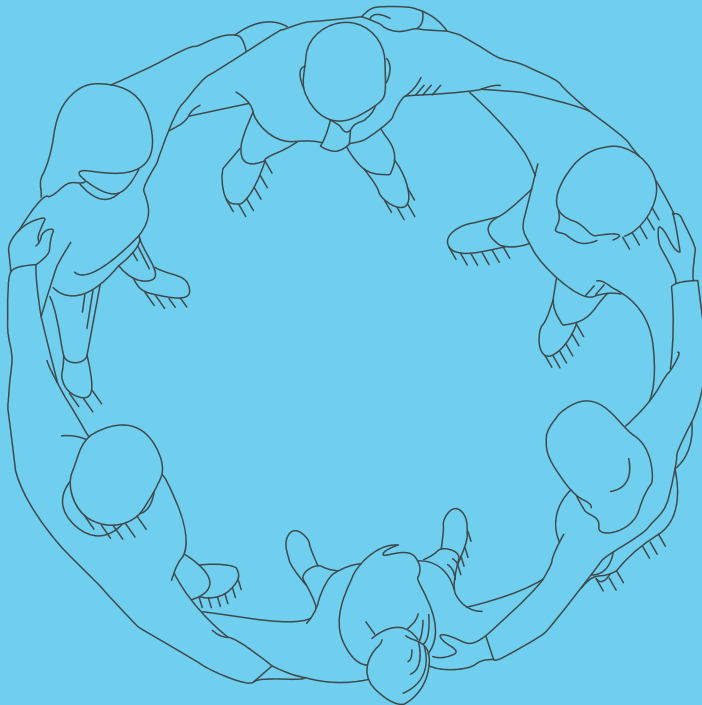


Annual General Meeting 2021

Voting guide and
AGM information booklet



Contents

Page 3	An Update on this year's Annual General Meeting
Page 4 - 5	Chairman's review
Page 6	Chief Executive's review
Page 7 - 9	Strategic report
Page 10 - 11	Remuneration report
Page 12	Directors' update
Page 13 - 14	Re-elections to the Board
Page 15	Summary of financial results

How you can vote

Voting online is quick and easy; all you need to do is visit:

agm.shepherdsfriendly.co.uk

When you log in, just enter your personal voting code and you're ready to get started. Your unique voting code can be found at the top of the notice or the email you have received from us. You can use this code to enter the portal and submit your vote.

Just like last year, we are only offering online voting for the 2021 AGM. This is for the convenience and safety of our members. Plus, reducing the amount of paper we use also helps us to do our part for the environment.

If you don't have access to online voting, you can place your vote over the phone. Simply call our Member Services team on **0800 526 249** and they'll guide you through the voting process.

An update on this year's Annual General Meeting

Our Annual General Meeting (AGM) will take place on **Tuesday 29th June 2021 at 4.30pm**. As a member, you can vote and help shape the future of Shepherds Friendly. Don't miss your chance to have your say.

Working together, so everyone can benefit

Putting our members at the heart of what we do forms the basis of our values here at Shepherds Friendly. We pride ourselves on doing the right thing and trying to make a real difference to the lives of our members through the products and services we provide. That's why you have a say in how we are run; as a member, it's your voice that matters and the AGM is a great opportunity to use it.

Since Covid-19 came into our lives, changing and adapting our day-to-day has become the norm for all of us. Our AGM is not exempt from this; last year saw us carry out online voting only and a remote AGM for the first time in our history. With our 2021 AGM fast approaching, there is still some uncertainty regarding the changing restrictions that aim to keep us all safe, so we must continue putting the wellbeing of our members and staff at the forefront.

As such, we are still planning how our AGM will take place this year to ensure that it is held in line with government guidelines at the time. Once we have an idea of what will be possible, we will let you know our plans via our website: agm.shepherdsfriendly.co.uk. However, I can confirm that voting will take place online again this year.

I would like to take this opportunity to say thank you for your ongoing support, patience and understanding throughout these uncertain times.

You vote, we donate

For every vote we receive ahead of the 2021 AGM, we will donate 25p to our nominated charity, Seashell Trust. To find out more about the fantastic work Seashell Trust does to support children and adults with complex educational needs, please visit our website: shepherdsfriendly.co.uk/about/#community-support

What to expect in this booklet?

In this booklet, you'll find a review of our performance for 2020, as well as my report, which outlines steps taken by the Board of Directors to maintain the Society's continued growth and development. Please take time to read through this and have your say by casting your vote.

Don't forget, as a member, Shepherds Friendly is owned by and run for you. Your votes will help shape the future of the Society, making it better for you and for all of our members. So, make sure your voice is heard. Let's work together to make sure everyone can benefit.

We look forward to hearing your views.



Joanne Hindle
Chairman
June 2021

Chairman's review 2020

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.

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 review

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 Friendly 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

Strategic Report

For year ended 31st December 2020

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 Royal London Asset Management.

Income received by the pooled funds is 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 policy-holders. 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.

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;
- The analysis of material risks faced by the Group and the management of those risks;
- 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; and
- The impact caused by Covid-19 on our forecast solvency and liquidity.

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

Longer-term Viability 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 Own Risk and Solvency Assessment (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 also took into consideration uncertainties due to Covid-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.

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 equity, fairness and consistency in the operation of rewards policies and practices.

Executive Directors' Remuneration

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

Salary

The salary level is set commensurate with that of 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.

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.



Board Remuneration 2020

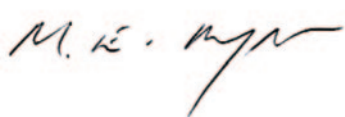
Name	Salary £	Bonus £	Pension Supplement £	Other Benefits ³ £	Total 2020 £	Total 2019 £
Executives						
A M O'Dea	214,279	64,284	28,017	1,445	308,025	299,993
N Hossain ¹	108,952	32,686	9,358	1,264	152,260	57,082
S Chivers ¹	112,634	33,790	9,632	714	156,770	67,543
C Critchlow ²	140,000	42,000	12,971	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
Individuals serving as Director on the prior year						
J Morrissey ⁴	-	-	-	-	-	248,598
K Harris ⁴	-	-	-	-	-	72,070
R Turner ⁴	-	-	-	-	-	13,981
G Ross ⁴	-	-	-	-	-	18,221
						169,399
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

Directors' update

For the year ended 31st December 2020

Corporate Governance

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. The second line of defence is provided by the internal Compliance and Risk functions, and their consultancy advisers. The third line of defence is provided by an internal audit firm and 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 by 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.

The AFM Corporate Governance Code (“The AFM Code”)

The Society is a member of the Association of Financial Mutuals (“AFM”) and has applied the AFM Corporate Governance Code (the “Code”) for Mutual Insurers for 2020. The Code sets out a set of principles of good corporate governance using an ‘apply and explain’ approach, focussing on culture within an organisation and employee and stakeholder engagement.

Senior Independent Director - Nemone Wynn-Evans Role of the Senior Independent Director

In publicly listed companies, the role of a Senior Independent Director is to act as a voice of the shareholders, ensuring their interests are fully understood by the Board. At Shepherds Friendly, our members are in effect the owners of the Society, and we are committed to placing them at the heart of everything we do. Nemone’s role as the Senior Independent Director is to ensure that this happens, and also to act as a channel of communication for any member who believes they have an issue or problem which cannot be resolved through the usual channels.

Complaints

The Society has in place clearly documented procedures for the handling and recording of complaints, which means that the compliance officer will investigate all complaints thoroughly and impartially within a reasonable time. Any member who feels dissatisfied with the result of such an investigation has the right to raise the matter with our Senior Independent Director and can also choose to refer the complaint to the Financial ombudsman Service.

Pension Scheme

The assets of the Society’s defined benefit pension scheme are totally separate from the assets of the Society and are invested with independent fund managers. The trustees of the pension scheme include both member nominated and employer nominated trustees. The actuaries of the pension scheme are independent of those of the Society.

Appointment of 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 2021 Annual General Meeting.

Re-elections to the Board



Joanne Hindle

Non-Executive Director

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.



Nemone Wynn-Evans

Non-Executive Director

Experience:

Over 25 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 former non-executive director of the Scottish Building Society.



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.



Mark Myers

Non-Executive Director

Experience:

Mark has worked in the Financial Services sector for 38 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.

Summary of Financial Results

31st December 2020

This financial statement is a summary of information in the audited Annual Accounts and the Report of the Board of Management.

Summary consolidated financial information for the year ended 31st December 2020

Income and expenditure for the year ended 31st December 2020	2020 £'000	2019 £'000
Earned premiums, net of reinsurance	26,056	22,714
Investment income	1	4,028
Unrealised losses/gains on investments	(4,667)	(2,182)
Other technical income	258	392
Total technical income	21,648	29,316
Claims incurred, net of reinsurance	11,498	14,179
Changes in other technical provisions	(4,411)	9,630
Net operating expenses	10,402	11,534
Other technical charges	337	354
Total technical expenditure	17,826	35,697
Excess of income over expenditure	3,822	(6,381)
Transfer to fund for future appropriations	(3,822)	6,381
Balance on technical account - long term business	-	-
Statement of other comprehensive income		
items that will not be classified to profit & loss		
Actuarial gain(loss) on pension scheme	(292)	(85)
Transfer to fund for future appropriations	292	85
Total Comprehensive income for the year	-	-

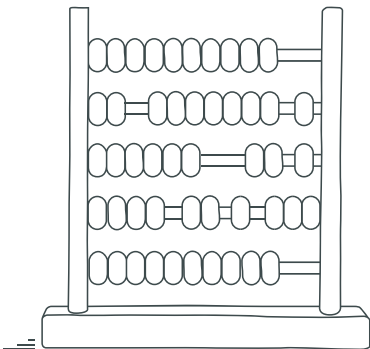
Approved by the Board on 7th April 2021. J Hindle - Chairman, A M O'Dea - CEO

Summary consolidated balance sheet as at 31st December 2020

Assets	2020 £'000	2019 £'000
Investments	91,328	87,492
Debtors	663	384
Other assets, including cash	3,888	2,359
Prepayments and accrued income	288	269
Long Term Business Provision for protection business	47,365	41,526
Reinsurers' share of technical provisions	12,467	6,646
Total assets	155,999	138,676

Liabilities	2020 £'000	2019 £'000
Fund for Future Appropriations	20,726	17,196
Technical provisions	132,348	118,769
Creditors arising from direct insurance operations	51	46
Other creditors including taxations and social security	927	960
Accruals and deferred income	1,143	1,128
Net pension liability	804	577
Total liabilities	155,999	138,676

Approved by the Board on 7th April 2021. J Hindle - Chairman, A M O'Dea - CEO





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Shepherds Friendly is a trading name of the Shepherds Friendly Society Limited which is an incorporated Friendly Society under the Friendly Societies Act. Registered No 240F. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, Financial Services Register No 109997. The Head office and Registered office of The Shepherds Friendly Society is based in the United Kingdom.