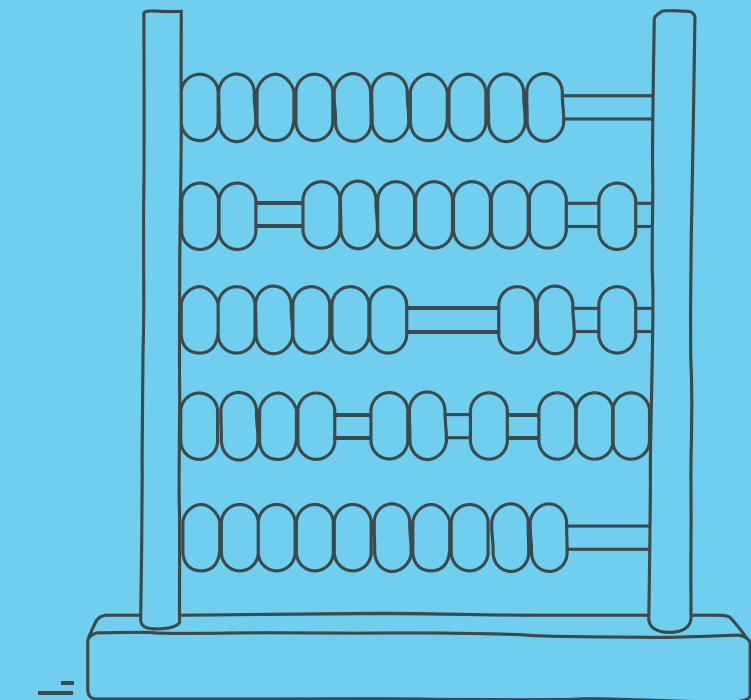


Annual Report and Financial Statements

31st December 2022

The Shepherds Friendly Society Limited



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The Shepherds Friendly Society Limited

Our Directors and Advisers

Non-Executive Directors

Nemone Wynn-Evans	Board Chair
Simon Pashby	Senior Independent Director
Joanne Hindle	(retired 28 June 2022)
Cameron Mills	
Mark Myers	
Alison McKinna	(appointed 28 June 2022)
Neil Tinegate	(appointed 28 June 2022)

Executive Directors

Ann-Marie O'Dea	Chief Executive
Nasrin Hossain	Executive Director
Samuel Chivers	Executive Director
Christopher Critchlow	Executive Director

Company Secretary and Registered Office

Tim Robertson
Haw Bank House, 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

RSM UK Risk Assurance Services LLP

Tax Advisors

PwC LLP

Bankers

Santander UK PLC

Investment Managers

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

Shepherds Friendly Society Limited

is registered and incorporated in the United Kingdom 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

A Message from our Board Chair

Reflections on the past year

Selected highlights

7% increase in membership numbers.

Increase in solvency ratio to 171%.

Increase in total assets by £6.6m.

Bonus on with-profits plans maintained.

Members' funds ("FFA") reduced by £2.3m to £16.4m.

Accreditation from Investors in Environment.

I am proud to reassure our members that 2022 has been another year that the Society has shown resilience in uncertain circumstances and continued to deliver product and services that meet the needs of our members. 2022 has been anything but the year many of us would have expected, having endured the challenges and uncertainty posed by the Covid-19 pandemic in the previous years.

The on-going war in Ukraine, coupled with supply shortages following the post-Covid demand spike, spurred inflation and sent energy prices soaring here in the UK. And then a mini-budget in September and the uncertain political situation in the UK exacerbated the volatility in investment markets and reduced consumer confidence. As a result many consumers now face a cost of living crisis with inflation and interest rates at levels not seen in many years.

Against that backdrop it is vital that we are here for our members, always aiming to deliver products and services they want at fair value, and offering the support they need when they need it.

A Message from our Board Chair

Our Members

Our increased appeal to consumers alongside strategic focus on the retention of our existing membership base has meant that our membership numbers increased by 7% over the year.

Despite the very challenging market conditions over the year, I am delighted that we were able to maintain annual bonus payments awarded to our with-profits policyholders and do our part in supporting them through this financially challenging period.

Over the year we have enhanced our internal processes so we consider vulnerability when we receive requests from members, and external communications for the more vulnerable groups of our membership ensuring that we take due account of their specific circumstances, so they are treated fairly and with proper dignity, respect and consideration.

Our technical provisions for in-force policies have increased by £4.6m over 2022 to £103.3m as at 31 December 2022. The increase is driven by the growth in the Society's with-profits business combined with the significant increase in interest rates over the year. These increases in our liabilities have in turn contributed to a reduction in members' funds by £2.3m to £16.4m as at 31 December 2022. The reduction is in line with our expectations after allowing for the impact of volatile investment markets and maintaining bonuses for our members. Our solvency ratio has increased from 166% to 171% as at 31 December 2022. The solvency ratio is carefully monitored through our risk management framework and in consideration of members' long-term interests.

Offering simple and accessible savings and protection products through a customer centric approach.

Our People

The success of the Society and the positive experience that our members receive is a credit to the high level of dedication and commitment of our people. We are proud of their talent and we value the retained knowledge and capabilities in the business which is integral to achieving our strategic goals. As a Board, we are conscious that they are also not immune from the cost-of-living challenges experienced by our members. I am pleased that we were able to award our people, below senior management level, a discretionary one-off payment to help ease the ongoing financial uncertainties.

Governance and Regulation

Good governance is a key part of any successful business and here at Shepherds Friendly we take great care to maintain excellent standards of conduct. To that end I am delighted to welcome Neil Tinegate and Alison McKinna, who were appointed as non-executive directors at the 2022 AGM. Neil and Alison's extensive knowledge will I am sure be a huge benefit to realising the Society's potential.

Effective risk management is a particular area of focus of any insurance business, and it is no different for the Society. We have continued with the integration of risk management across the business to stay on top of emerging risks and so we can adopt appropriate risk mitigations to strengthen the Society's longer-term resilience.

Consumer Duty is an important new piece of regulation being introduced by the Financial Conduct Authority this year to ensure that insurers, like us, offer products and services that meet consumers' needs and offer them at fair value. The values within the Society align well with this new regulation and its objectives. The Society has progressed with its implementation plan over 2022 and we are on track to meet the regulatory timescales.

A Message from our Board Chair

Vision for the Society

As Board Chair, I am confident that the Society's strategy will continue to deliver value for its members. Our purpose is to deliver simple and accessible products that provide members with a more certain financial future. We have been successful in offering members a range of both savings and protection products that meet their needs and we want to further develop the range of products we offer.

The world of course continues to change and evolve particularly with new technological initiatives. We will be continuing to adapt our technology to enhance how we communicate with our members and widen our appeal to consumers. We continue to seek opportunities with innovative partners who can complement the value we give to our members.

As our people work hard to implement our plans, I am confident that the Society can continue growing its membership base by offering products and services that really meet the needs of our members.

Providing members with a more certain financial future.

Thank You

I cannot let the year pass without acknowledging my huge sense of gratitude to Joanne Hindle who stepped down as a non-executive director from the Society at the 2022 AGM. Joanne, who was Board Chair over much of her time with the Society, was instrumental in shaping the Society as it is now and we are indebted to her tireless efforts and dedication. We wish Joanne every success for the future.

Lastly, but by no means least, I want to thank our people at the Society. It is such a vibrant, modern and exciting place to work that is driven by the enthusiasm and dynamism of everyone who works there. The past year has not been without its challenges. So it is a true testament to their hard work that the Society has performed to target over 2022 despite the uncertainties over the year. For that I am deeply thankful and I am confident that in their hands we can realise the Society's potential for continued responsible growth and providing enhanced value to our members.



A handwritten signature in dark ink, reading 'Nemone Wynn-Evans'.

Nemone Wynn-Evans

Board Chair

24th April 2023

Strategic Review by our Chief Executive

Business Review

The past year has been another highly challenging one and the fact that the Society has performed as it has is a reflection of the commitment and dedication of our people. We entered a cost-of-living crisis exacerbated by the war in Ukraine, an ill-fated mini-budget, higher interest rates, and a spike in inflation. This has had an inevitable downward impact on investment returns and the Society has not been immune from those effects, particularly in the value of its insurance book of business.

So it is with great pride that despite all these challenges, the Society continues to deliver against its strategic objectives:

- Membership numbers have increased to 136,000 (2021: 127,000);
- Gross premium income has grown to £35.3m (2021: £31.8m) from new business and contributions from existing members; and
- Total assets have increased to £185m (2021: £179m) despite the investment loss of - £0.7m in the year (2021: gain of +£10.2m).

How our Members Benefit

We are, ultimately, here for the benefit of our members. Again we have a good story to tell:

- Payouts to members over the year increased to £16m (2021: £14m) reflecting our mission to support our growing membership base when they need us most;
- We accepted and paid over 96% of Income Protection claims;
- We maintained the 2022 bonus award to with-profits policyholders, and increased bonus rates on policies claiming in 2023;
- We enhanced the investment returns on assets held for with-profits policyholders by 0.7%, being an allocation of profits made on other protection products offered by the Society; and
- Over 2022, our people have committed over 300 hours of volunteering work at local charities and we have raised £1,400 for them.

We also provide our members with other benefits including health and wellbeing benefits, remote GP consultations and rehabilitation service through our partnership with Nuffield Health. I am particularly proud of the industry awards achieved by the Society over 2022, including:

- COVER Customer Care Awards for Outstanding Claims Team and Outstanding Business Development Team;
- Highly Commended Investment Life & Pensions Moneyfacts Awards for Best Junior ISA Provider, Best Protection Service and Best Claims Support; and
- Commended Investment Life & Pensions Moneyfacts Awards for Best Income Protection Provider.

Strategic Review by our Chief Executive

Financial Resilience

In this age of uncertainty, it is natural that consumers expect insurers with whom they place their money to be resilient against the many challenges we face. The Society has been in existence since 1826 and our longevity is a testament to the responsible way in which the business has been managed over all that time.

This year I am delighted that a key indicator of financial strength, our solvency ratio, has increased to 171% at the end of 2022, up from 166% at the end of 2021. Our fund for future appropriations stands at £16.4m at 31 December 2022 against £18.8m at the end of the prior year. The reduction caused primarily by the significant increase in interest rates over the year and the volatile investment market conditions. Overall, the increased solvency ratio ensures the Society is financially more resilient.

Each year we undertake extensive stress and scenario tests to test the resilience of the business to adverse events. That process has again confirmed our ability to withstand extreme events and gives us confidence that we are operating as a sound and prudently run business should be.

As the business evolves we are ever more conscious of the right ways in which we can manage the risks in the business. This has helped us consider the right balance of investments to deliver against our objective seeking to maximise the financial returns to with-profits policyholders whilst aiming to ensure that returns do not fluctuate significantly from year to year. We have also reviewed additional risk mitigation techniques to add further levels of protection for the business in times of stress. This includes making increased use of reinsurance and increasing the range of reinsurers with whom we work.

Responsible Investment and Climate Change

Climate change is an important consideration for us all and the Society takes its role in this seriously. We are fully supportive of the steps both regulators, the Prudential Regulation Authority and the Financial Conduct Authority are taking on this as well as on the wider impact of environment, social and governance (“ESG”) issues.

Within the Society we have set ourselves the objective of being net carbon neutral, measuring our carbon footprint across the business and using offsetting techniques to mitigate their impact. We achieved an accreditation from Investors in Environment and are continuing to work with them to ensure we continue to manage our carbon footprint.

Our approach however is wider than merely the carbon footprint in the business and it extends to the wider ESG context. This means that we are looking at:

- How our investment partners can transition investments within existing portfolios to a more responsible approach;
- Understanding the possible impact of climate change on how our assets may perform, and how our business may be affected, including ensuring we have the right approach to risk management, governance and disclosures;
- Understanding what our members want from their products in the wider ESG context, and ensuring we have the right products to meet those needs; and
- Working with our people to increase the level of recycling at our Head Office and developing initiatives to lower our energy and waste consumption.

Strategic Review by our Chief Executive

People Transformation

The Society's people and culture strategy will be enhanced to ensure the delivery of the business transformation process. The strategy focuses on ensuring our people have the relevant skills and competencies as well as investing in and enhancing the Society's value proposition as an employer.

The Society takes seriously the need to be a diverse and inclusive organisation and we are proud of our achievements:

- Achieving 32% female representation in senior management;
- Maintaining female representation in the Society at above 40%; and
- Enhancing our recruitment procedures to increase diversity within the Society's workforce.

We recognise that the human factor is one of the key elements to a successful business. There currently exists a strong culture of innovation which allows the Society to be agile and responsive to the need for business change.

Throughout this change we are working hard to ensure that our people continue to feel engaged, involved and an integral part of the process. Collaboration across the Society is an important part of the change process, and we are developing our systems to facilitate knowledge sharing across the business.

It is important that the Society has the right people in the right roles at the right time. Investment in the up-skilling, re-skilling, and development of our people in both technical and interpersonal competencies will take place, while recognising that having external expertise and perspective will also be important to enhance and support the current internal expertise and knowledge.

Roadmap for the Future

Achieving our vision for what we want the Society to be is dependent on us ensuring we can continue to grow and evolve as a business. We are cautious of the challenges ahead, so we continue to adopt a responsible approach to the way we manage our members' money, and we continue to innovate to ensure we maintain currency in this uncertain world.

A key part of any modern business is ensuring it maintains currency with emerging software and mobile technology developments. The Society will continue to advance its technological capabilities by both modernising its plan management systems to meet member expectations and support further innovation and evolving its data gathering and analytical capabilities to enable a deeper level of insight into both consumer behaviours and business performance.

Our overall technology development objective is to deliver an improved member experience including that for vulnerable members. We will seek to maintain our focus on developing new products and new business partnerships to further diversify the Society's routes to market. Understanding the member and their needs underpins much of this activity, and this is achieved through a programme of research with consumers and members, aimed at nurturing a market-orientated approach to our innovation.

At the heart of these initiatives is ensuring we are operationally resilient. The Society went through an extensive process over 2022 to review its key business services and we will continue to develop our framework to ensure it remains up to date in the light of the rapidly changing environment we work in.

Strategic Review by our Chief Executive

And Finally

I would like to express my heartfelt thanks to everyone who works with the Society: our people who show so much dedication to making the business such a success, all the external organisations who work with the Society to help us realise our goals and to our Board of Directors who continue to provide invaluable guidance and support.

With such a great team I am confident that Shepherds Friendly will realise its future plans to provide members with a more certain financial future.



A handwritten signature in black ink, appearing to read 'Ann O'Dea', written in a cursive style.

Ann-Marie O'Dea
Chief Executive
24th April 2023

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. Physical risks of climate change are not, at this stage, expected to have a material impact on the Society. Like most health and life insurers, the Society may be impacted by the transitional effects of climate change.

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.

The Society's approach and implemented initiatives are discussed previously on page 8.

Governance

The Board has ultimate responsibility for the Society's climate change strategy. 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. The Nominations & Governance Committee has oversight of the implementation of the Society's climate change strategy.

The Society has committed to an Environmental Policy which has been approved by the Board.

Strategy

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

Claims

In the medium to long term there is a risk of financial losses from claims caused by the physical impact of climate change and the potential changes to mortality or morbidity.

In order to mitigate this the Society has embedded climate change risks in the annual ORSA scenario and stress testing to assess the potential impact on solvency and liquidity. These scenarios have been drawn from the Bank of England's 2021 Climate Biennial Exploratory Scenario ("CBES") and adapted to be appropriate for the nature of the Society's business.

Investments

In the short to medium term there is a risk that financial losses from investments caused by transitional risks from adjustment to a low-carbon economy or changing market conditions due to climate change.

In order to mitigate this risk, the Society is continuing engagement with our investment providers to understand the impact of climate change and sustainability on their investment approach.

We also keep under review our choice of investment providers, with increased focus on climate change and sustainability considerations.

Member preferences

In the short to medium term there may be a diversification of members' product preferences towards more sustainable alternatives.

The Society offers a sustainable product range. The funds for this product are invested into a sustainable fund managed by RLAM. The fund is designed to only invest in companies that make a positive contribution to the environment and society as a whole.

Climate Change

Risk and Opportunities (continued)

Operational

There is a risk of operational failures caused by physical impacts of climate change in the medium to long term, for example on essential utilities, business critical supplies and distribution networks.

As part of the Society's operational resilience framework, climate change scenarios have been integrated into the Society's disaster recovery testing in order to mitigate this risk.

The key highlights of the Society's overall strategy over the next couple of years include:

- a) Engaging in initiatives to maintain the Society's carbon neutrality and reduce carbon emissions;
- b) Continual assessment of investments and supply chain to shift towards sustainability; and
- c) Enhancing our Investors in the Environment accreditation.

The resilience of the strategy is also strengthened through employee engagement, and embedding the target into our values, behaviors and objectives.

Risk Management

As discussed previously under Risk and Opportunities the Society uses the Risk Management Framework to identify and monitor risks and the Board Risk Committee oversees risks due to climate change. The Society's Risk Management Framework and ORSA have been updated and continue to be updated to reflect the financial risks of climate change.

Metrics and Targets

As part of the Society's sustainability strategy, we will develop metrics and targets for resources utilised at the Society's head office. The Society's ultimate target is to maintain its carbon neutrality that it achieved in 2022, which is already ahead of the Paris Agreement's goal of 2050.

The Society has an established working group to identify changes to working practices or new ideas which will lower the Society's carbon footprint and improve what the Society does for the environment.

An example of such initiative was the Action Travel Week where the goal of the week was to travel greener by using public transport, car sharing, cycling, or walking to work. The result was a reduction in weekly mileage travelled by 662 miles.

The table below shows the Society's total usage of energy and gas resources utilised in the year at its head office and usage as an average of membership base. Electricity and gas usage have remained broadly consistent, which is a positive result considering there were periods of lockdown over 2021.

	Average consumption per membership		Total consumption	
	2022	2021	2022	2021
Electricity (KwH)	0.39 KwH	0.39 KwH	52,620 KwH	48,026 KwH
Gas (KwH)	0.29 KwH	0.32 KwH	40,076 KwH	39,571 KwH

Risk Management Report

Risk Appetite

The Board is responsible for setting the Society's risk appetite which is expressed in the annual Own Risk and Solvency Assessment ("ORSA"). The ORSA can be produced more frequently if the Society's risk profile has changed materially. One ORSA was produced in 2022.

The Society's overarching risk appetite is to hold a strong capital position and to be able to maintain solvency under significant adverse events. The Society's Risk Appetite Statement explains the level of risk that the Society is prepared to accept in pursuit of its strategic objectives and defines the tolerance for each risk category.

Risk Management Framework

The Board has ultimate responsibility over risk management and it is supported by Board Committees in executing its responsibilities. The Society applies the three lines of defence model as illustrated opposite.

The Society's Risk Management Framework (the "RMF") is designed to sit alongside the strategic plan and be proportional, aligned, embedded and dynamic. The RMF looks to ensure that risk management and risk culture, supports the identification, assessment, management and control of material risks that threaten the achievement of the strategy and fair treatment of members. The principal architecture of identification and culture are risk categories, headline risks, emerging risks, risk ownership and reporting.

To facilitate our RMF, the Society's Risk Database is the central repository for all risks identified by the Society. Risk reporting indicators are used as early warning indicators for each headline risks. They are aligned to the risk appetites and reported to the Board Committees.

1st line of defence

- **Front line staff**
- Day to day risk management
- Application of internal controls



2nd line of defence

- **Risk and Compliance department**
- **Actuarial Function**
- Guidance and direction
- Oversight



3rd line of defence

- **Internal audit**
- Review of 1st and 2nd line
- Independent perspective
- Offer assurance

Risk Management Report

Summary of Headline Risks

Pricing and expected experience risk

The risk that the premiums received are insufficient to cover the operational costs and claims costs of the product. This can be due to higher lapse rates than expected, higher costs to acquire new business or maintain existing business, or higher sickness inception rates or lower sickness recovery rates from the Society's Income Protection ("IP") book of business.

Expenses, lapse and sickness claims experience is closely managed against the Society's risk appetites by Senior Management and monitored by the Board Risk Committee with Board oversight. Action is taken when performance is outside tolerance.

The Society seeks to work with intermediaries with similar values to deliver the quality of new business it expects and to promote member retention. The Society also focuses on member retention initiatives and it has enhanced the benefits provided to IP policyholders to aid recovery from sickness. Reinsurance arrangements help to mitigate sickness risks and IP premiums may be reviewed in line with the terms and conditions of the contracts to adjust for adverse experience.

Product development & portfolio risk

The risk that new business is not in balance with business operations (too much or too little). The risk arises from sales of the Society's with- profits products, non-profit products and products sold through third party relationships.

The Society aims to maintain a varied product range and varied distribution channels to provide continuous flexibility and adaptability to changing market circumstances. 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.

Regulatory change risk

This is the risk that the Society fails to meet its obligation as a result of changes to regulation, such as the new Consumer Duty regulation. This may result in a poor outcome for the Society's members.

The Board has approved a Consumer Duty implementation plan for the Society and nominated a Board Consumer Duty champion to oversee that the changes are implemented correctly and in line with the regulation. The Society is in the process of embedding Consumer Duty across the business, developing key metrics to measure consumer outcomes at key stages of the member journey. Management, the Fair Members Benefit Committee and the Board regularly review Management Information on complaints, customer communications and sales journeys to maintain oversight.

Market Risk

This is the risk that the Society's own funds are adversely affected by a change in the value of the investments that the Society holds. This risk includes the risk of higher interest rates which reduces the value of future cash flows to the Society for IP contracts written.

The Society holds investments in actively managed funds that are designed to generate less volatile investment returns in the long term. Investment risk volatility is actively managed by fund managers at RLAM, and LGIM passively tracks appropriate fund indices for the Society's unit-linked funds. The Board has oversight of RLAM as a key outsourced active investment management services provider. Investment performance and emerging experience is monitored by the Board Risk Committee and the Fair Members Benefit Committee. The Society maintains a varied product range and any reduction in the value of IP policies as a result of higher interest rates will be partly offset by a lower value of liability on the Society's with-profit business. The Society has in place a derivative financial instrument to hedge against some of the impact of interest rate movements.

Risk Management Report

Summary of Headline Risks (continued)

Counterparty default risk

This is the risk that any of the Society's counterparties default or their credit rating deteriorates, causing a material financial loss to the Society. The Society monitors credit worthiness of all its material counterparties and takes mitigating actions when there are concerns over the credit rating. Material counterparties are selected based on an assessment of their financial strength and global reputation. This means the credit risk is low for the Society's material counterparties that includes its reinsurers, investment management provider and banking providers. Management reviews outstanding balances from intermediaries on a weekly basis and takes action to recover overdue payments.

Operational resilience risk

This covers the risk that the Society does not have the ability to prevent, adapt, respond to, recover and learn from operational disruptions or cyber threats. 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.

The Society has in place an Operational Resilience Framework to manage and stress test operational and technological crises covering various areas such as data and cyber security, enabling rapid and effective decision making. The Framework identifies the important business services, critical and important suppliers, and critical roles in the business. The Framework sets out the frequency at which the Society reviews key controls and an assessment of how they can be flexed during periods of operational strain. Before entering any outsourcing relationships, the Society conducts due diligence on the organisations and the outsourced activity to ensure any risks are fully considered. The Society recognises that cyber threats constantly evolve in sophistication and it continues to invest in its security systems to ensure the Society remains resilient to cyber threats and other physical threats to business continuity.

Strategic development change management risk

This captures the risks that the Society's strategic development does not benefit members, and the pace of change could lead to uncertainty around the ability of management to deliver the strategy set out by the Board.

The Board Risk Committee and Board monitors the key risk indicators reported by management. The key risk indicators will act as early warning flags on change management risk. Management have established a management committee to review progress of strategically important projects, manage the project roadmap and manage strains on development resources.

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.

Profiles of the Board Members in 2022



Nemone Wynn-Evans

Board Chair and Chair of Nominations and Governance Committee

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. Nemone is a Fellow of the Chartered Institute of Securities and Investment and holds an MBA from Cranfield School of Management.

External appointments

Board Advisor at SORBUS Partners LLP, a private wealth management office, Non-Executive Director and Chair of the Nominations Committee at Hinckley & Rugby Building Society, Non-Executive Director and Chair of the Audit & Risk Committee at Good Energy Group plc, a renewable energy company, and Non-Executive Director and Chair of the Audit Committee at the Income & Growth Trust VCT plc, a Mobeus Venture Capital Trust investing in small UK companies.

Simon Pashby

Non-Executive Director (Senior Independent Director, Chair of Audit and Compliance Committee and Chair of Remuneration and Engagement Committee)



Experience

Simon is a Fellow of the Institute of Chartered Accountants in England and Wales 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

None.



Ann-Marie O'Dea

Chief Executive Officer

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, Parcellforce 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. As Chief Executive, Ann-Marie provides strategic and operational leadership to ensure the Society's continuing development and financial stability.

External appointments

None.



Cameron Mills

Non-Executive Director (Chair of Fair Members Benefits Committee)

Experience

Cameron qualified as a Fellow of the Faculty and Institute of Actuaries in 1988. He has worked in the insurance industry for over 35 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.

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.

Profiles of the Board Members in 2022



Mark Myers

Non-Executive Director
(Chair of Board Risk Committee)

Experience

Mark has worked in the Financial Services sector for 40 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

Committee Member of Huntingdon Racecourse and Chair of the Finance and Operations Committee for the King's School, Ely.



Neil Tinegate

Non-Executive Director
(Appointed 28 June 2022)

Experience

Neil has over 25 years' executive experience predominantly in retail and consumer goods sectors. He has held senior and board level roles in a range of corporate structures from global PLCs to AIM listed and private equity backed businesses. With customer-facing digital transformation as a specialism, he played lead roles in the teams that digitally transformed Argos in the UK and Heineken across Europe.

External appointments

Trustee for the Board of the Shaw Education Trust and external advisor to a range of corporate clients.



Alison McKinna

Non-Executive Director
(Appointed 28 June 2022)

Experience

Alison has experience in both the public and private sector, across multiple industries including financial services, technology, healthcare and charities. She is an accomplished and client focused business leader with a successful track record of business transformation ensuring financial growth, digital innovation and improved customer experience. Alison was a finalist for Board Director of the Year in the UK Women in IT Awards 2021, recognising her contribution to technology enabled organisations, and support for diversity and inclusion.

External appointments

Chair at Acivico Group, Board Member of Auriga Services, Board Member of BHSF, Board Member of Cancer Central CIC.



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. As Culture Director, Nasrin has overall responsibility for ensuring that the Society creates a quality experience for its members and employees.

External appointments

None.

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.

Profiles of the Board Members in 2022



Samuel Chivers
Executive Director

Experience

Sam 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. Sam was promoted to Operations Director in 2019 and holds responsibility for leading the day-to-day operations of the business in accordance with the overarching strategic plan and the annual operating plan. He also oversees the operational resilience of the Society.

External appointments

None.



Christopher Critchlow
Chief Actuary and Executive Director

Experience

Qualified actuary with over 30 years' experience working in the financial services sector. Before joining Shepherds Friendly in 2020, 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. As Chief Actuary, he is responsible for developing, promoting and implementing sound capital and risk management policies and processes within the Society, and thereby, ensuring the members' interests are protected.

External appointments

Non-Executive Director of Stewart Title Limited.

Board of Directors

Board Attendance in 2022

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

Current board members:	Feb	Mar	Apr ¹	May	May	June	Sept	Sept	Nov
	BM	BM	BM	BM	SD	BM	BM	SD	BM
Nemone Wynn-Evans Board Chair	✓	✓	✓	✓	✓	✓	✓	✓	✓
Simon Pashby Non-Executive Director	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cameron Mills Non-Executive Director	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mark Myers Non-Executive Director	✓	✓	✓	✓	✓	✓	✓	✓	✓
Alison McKinna Non-Executive Director (appointed 28 June 2022)	-	-	-	○	○	○	✓	✓	✓
Neil Tinegate Non-Executive Director (appointed 28 June 2022)	-	-	-	○	○	○	✓	✓	✓
Joanne Hindle Non-Executive Director (retired 28 June 2022)	✓	✓	✓	X	✓	✓	-	-	-
Ann-Marie O'Dea Chief Executive Officer	✓	✓	✓	✓	✓	✓	✓	✓	✓
Christopher Critchlow Executive Director	✓	✓	✓	✓	✓	X	✓	✓	✓
Nasrin Hossain Executive Director	✓	✓	✓	✓	✓	✓	✓	✓	✓
Samuel Chivers Executive Director	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tim Robertson Company Secretary	✓	✓	✓	✓	✓	✓	✓	✓	✓

¹ The meeting held in April was an additional meeting to approve the Annual Report and Financial Statements and Solvency Financial Condition Report for the year ended 31 December 2021.
○ - Attended as observer prior to appointment at AGM.

BM Board meeting

SD Strategy days

Directors' Report

Directors and Interests

Details of the current members of the Board are given on pages 16 to 18. 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 16 to 37.

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, and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Financial Advice Network Limited activities have been discontinued. Financial Advice Website Limited is a service company for the Group.

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. The KPIs include membership numbers, solvency ratio, the changes to the Society's fund for future appropriations ("FFA") and net carbon neutrality. A financial and strategic review for the year are contained in the Chief Executive Report on page 7.

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 13 to 15. Note 24 to the financial statements also provides details about the Group's financial risk management and controls.

The effectiveness of the Society's internal policies, systems and controls are monitored at multiple levels. The primary responsibility lies with the senior management team and all employees in the business. Further monitoring is provided by the internal Risk, Compliance and Actuarial functions. The Society also engages an independent Internal Audit firm and separate external statutory auditors to provide an independent assessment of policies, systems and controls.

The Audit & Compliance Committee oversees the effectiveness of this internal control structure, and an overview of this process is included in the Audit & Compliance Committee report on pages 28 to 30.

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 Nominations and Governance Committee provides oversight on the Society's initiatives on diversity, equality and inclusion and the Remuneration & Engagement Committee provides oversight of how the Society's remuneration policy and practices affect the Society's engagement with our people.

The Directors maintain various forms of formal and informal communication with our people. The Executives regularly update our people on developments within the Society at meetings, through bulletins and other internal communications. Our people and all new starters have various channels to give feedback or voice concerns including through the employee 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.

Diversity and Inclusion

As a mutual organisation, the Society's culture and ethos is to ensure that we treat all our people, members, and third-party relationships with dignity and respect. The Society is fully committed to promoting a positive and inclusive culture in the way we work with each other as well as with our members and third parties.

We continue to enhance our recruitment and processes to ensure that we are able to attract a diverse range of candidates to help us to more effectively understand and meet the needs of our member base. This year we have run a number of learning and development sessions to improve our understanding of different diversity, inclusion and equality issues as well as educating our people about the experience of others.

Sessions have included the needs of the older generation, Ramadan and Eid, Men's health, the history of LGBTQ+ and Pride, and Black History month.

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. The Society is part of the Women in Finance Charter and this demonstrates the Society's commitment to gender diversity throughout the organisation. The Society has achieved 32% female representation in senior positions, exceeding its target of 30% representation.

We currently offer flexible working practices, such as part-time working and compressed hours, and enhanced parental leave to support working parents as well as those with caring responsibilities. We will continue to develop our employment practices to ensure that we continue to attract a diverse range of people to work for the Society.

Donations

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 donated £1,400 (2021: £2,500) to charities during the year. No political donations were made during the year (2021: £nil).

Directors' Report

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 Board Chair's and Chief Executive's Reports from page 7);
- The analysis of material risks faced by the Group and the management of those risks (see details in the Risk Management Report from pages 13 to 15);
- The confirmation from the Society's actuary that the Society had a solvency level higher than that required for regulatory purposes as at 31 December 2022 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 actions management can take to manage emerging risks and the scenario testing performed as part of the annual ORSA process demonstrating solvency above the minimum regulatory requirements under a number of plausible but extreme market scenarios.

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. The Directors have determined a period of assessment of three years to consider the Society's longer-term viability. Three years is believed to be the most appropriate timeframe due to the fact that the Directors have reasonable clarity over a three-year period, allowing an appropriate assessment of the principal risks to be made.

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 this period. 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 2030. The scenarios included significantly unfavourable variations in the levels of new business, underlying economic assumptions, and policy lapses and claims compared to those expected. In the 2022 ORSA, we have also considered how those variations might evolve with the current cost-of-living pressures and increasing interest rates.

Based on these assessments, 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 2025. While the period of assessment is three years, the ORSA indicated a viability over a longer period.

Directors' Report

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 16 to 37) and the Financial Statements (please see pages 38 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).

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 provide the information necessary for members to assess the Group's performance, business model and strategy.

Directors' Report

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 re-appointed as auditors at the 2022 Annual General Meeting. BDO LLP is permitted to serve as auditors a further seven years, subject to annual approval by members. BDO LLP have expressed their willingness to continue in office. A resolution to reappoint BDO LLP will be proposed at the next Annual General Meeting.



A handwritten signature in dark ink, appearing to read 'S Pashby', written in a cursive style.

S Pashby
Senior Independent Director
24th April 2023

Corporate Governance Report

Introduction



The Society is governed primarily by the Friendly Society Act and complies with the Corporate Governance Code set by the Association of Financial Mutuals. The Society is also committed to meeting requirements set by its regulators, the Financial Conduct Authority and Prudential Regulation Authority and which have contributed to improved overall governance standards.

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. The Society is pleased to confirm that it has explained how the Society has complied with the Principles of the AFM Code.

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

Principle	Applied	How the principle has been applied
Purpose and Leadership: An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.		<ul style="list-style-type: none">Under the Board’s direction, the Society has articulated its strategy that is in line with its mission to protect our members’ interests and provide them with the service and products that meet their needs.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 and regular reporting is provided to the Board.
Board Composition: Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.		<ul style="list-style-type: none">The Society’s Board composition is on pages 16 to 18.The composition and profiles highlight:<ul style="list-style-type: none">a) the skills and experience that each Board member brings;b) diversity in line with the Board Diversity Policy; andc) division of responsibility between the Board Chair, the Chief Executive Officer, Executive Directors and Independent Non-Executive Directors in accordance with the Board Manual.The appraisal of the Board Chair’s performance and independence is facilitated annually by the Senior Independent Director.The non-executive directors’ performances and independence are appraised at least annually. All nonexecutive directors present themselves for annual re-election by the Society’s members at the Annual General Meeting (“AGM”). Except the Chair, all the nonexecutive directors have not served for longer than nine years.The external Board effectiveness review conducted in November 2022 concluded that the Society had a strong Board. The Board is implementing the recommendations over 2023.


Corporate Governance Report

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

Principle	Applied	How the principle has been applied
Director Responsibilities: The board and individual directors should have a clear understanding of their accountability and responsibilities. The board’s policies and procedures should support effective decision making and independent challenge.		<ul style="list-style-type: none"> • The Board Manual details the Society’s overall governance arrangements, decision-making processes and directs the conduct of the Board. • The Society is compliant with the FCA’s Senior Managers and Certification Regime (“SM&CR”). Senior Managers are assessed annually to ensure that they are fit and proper to perform their designated responsibilities. • The Society operates a Conflict-of-Interest Policy which provides guidance when a potential conflict of interest may arise. Any potential conflicts are considered by the Nominations & Governance Committee. • The Board Committees’ delegated authorities are defined in a documented Terms of Reference that is accessible through the Society’s website. The Board Committee reports are on pages 28 to 34. • Through the Board Committees and supported by the Society’s internal and external auditors, the Directors ensure that there are robust processes and controls over the quality and integrity of reports and data received by the Board for effective decision-making.
Opportunity and Risk: A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.		<ul style="list-style-type: none"> • The Board is focused on promoting and delivering long term value by maintaining responsibility for all strategic decision-making. The Board holds two strategy days annually to identify and assess opportunities with consideration of the Society’s risk appetite. • The long-term strategy and principal risks are updated and reviewed by the Board through the annual ORSA process. The principal risks and uncertainties are disclosed in the Risk Management Report on pages 13 to 15. • The Board Risk Committee ensures the establishment, development and maintenance of an effective and wellintegrated risk management process. The effectiveness of the process is monitored by the internal Risk and Compliance team, the independent Internal Audit firm and the Audit & Compliance Committee.
Remuneration: A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.		<ul style="list-style-type: none"> • The role of the Society’s Remuneration & Engagement Committee and details of the Society’s remuneration policy are detailed on pages 35 to 37. • The aim of the policy is to set remuneration that is benchmarked against similar businesses and encourages the Executive team to demonstrate high level of performance, correct values and behaviours and achievement of strategic objectives. • Non-executive directors are paid market competitive rates but no element of incentivisation or performance related pay applies.

Corporate Governance Report

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

Principle	Applied	How the principle has been applied
Stakeholder Relationships and Engagement: Directors should foster effective stakeholder relationships aligned to the organisation’s purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.		<ul style="list-style-type: none">• These methods are a mixture of face to face, telephone, written and internet contact.• 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 our usual channels of communication.• 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 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.• Details of the Society’s engagement with employees and charities are included in page 21.• The Society’s Supplier Management and Outsourcing Framework is designed to ensure the Society achieves the required results through third parties while adhering to regulatory requirements.

Board Committee Reports

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

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

A summary is given below of the most significant governance work conducted by these Committees throughout 2022.

Audit and Compliance Committee

Key Responsibilities

The primary responsibilities of the Audit and Compliance Committee are to:

- 1 provide guidance to the Board on matters affecting the Annual Report and Financial Statements and the Solvency Financial Condition Report ("SFCR");
- 2 independently evaluate assurance from management, internal audit and external audit regarding the financial statements, governance and systems of internal controls;

Audit and Compliance Committee (continued)

- 3 assess the effectiveness of internal auditors and external auditors, and manage the process for any external and internal audit tenders; and
- 4 oversee compliance with the Friendly Societies Act 1992, the Financial Services and Markets Act 2000, the Financial Services Act 2012 and other relevant 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 18. The Board is satisfied that the Chair, Simon Pashby has competence in accounting and auditing.

There were five meetings in the year as follows:

	15 Feb	30 Mar	15 Jun	14 Sept	9 Nov
Simon Pashby Chairman and Non-Executive Director	✓	✓	✓	✓	✓
Joanne Hindle Retired Non-Executive Director	✓	✓	n/a	n/a	n/a
Mark Myers Non-Executive Director	✓	✓	✓	✓	✓
Alison McKinna Non-Executive Director	n/a	n/a	O	✓	✓

n/a - Attendance at committee not mandated due to change of committee membership during the year.

O - Attended as an observer prior to appointment at AGM.

Board Committee Reports

Significant matters considered by the Committee in 2022

2021 Annual Report and Financial Statements.

The table below highlights the significant matters in relation to the 2021 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 and the war in Ukraine.	The Committee reviewed the going concern assessment produced by management. The assessment covered an 18 month period to 30 June 2023 and the stressed scenarios took into consideration the remaining uncertainties of Covid-19 and the war in Ukraine. The assessment provided a view that the Society would remain solvent and liquid over that period. The Committee assessed the assumptions and stresses applied to projections as part of the annual ORSA and it was satisfied that the going concern assumption was appropriate for the 2021 financial statements.
Technical provision valuations methods and assumptions for the 2021 Annual Report and Financial Statements.	As it is a significant risk area, the Committee independently assessed papers from the Chief Actuary detailing the technical provision valuations as at 31 December 2021. 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.
Approval of the 2021 Annual Report and Financial Statements.	In March 2022, the Committee reviewed and approved the 2021 Annual Report and Financial Statements for the Group and the Society and the financial statements for the Society's subsidiaries. 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.

Board Committee Reports

External Audit

For the financial year ended 31 December 2022, BDO LLP were re-appointed as external auditors at the Society's AGM in June 2022. The Committee monitors the independence and objectivity of the external auditors, including BDO's partner rotation plans. Rupert Livingstone has replaced Alexander Barnes as the senior statutory auditor for the financial year ended 31 December 2022 who had completed his five-year time limit as senior statutory auditor. In line with the revised FRC Ethical Standards 2019, the external auditors did not provide any non-audit services in 2022 and the prior year.

Internal Audit

As 2022 is the first year of RSM LLP's three-year audit cycle, the Committee considered their three-year audit strategy, handover arrangements with Mazars LLP and the 2022 internal audit plan in detail. 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.

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 2022:

- 1 Reviewed the 2021 Annual Money Laundering Reporting Officer's Report for the Society; and
- 2 Reviewed the 2021 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 five meetings in the year as follows:

	15 Feb	15 Mar	15 Jun	14 Sept	9 Nov
Mark Myers Chair and Non-Executive Director	✓	✓	✓	✓	✓
Simon Pashby Non-Executive Director	✓	✓	✓	✓	✓
Cameron Mills Non-Executive Director	✓	✓	✓	✓	✓
Neil Tinegate Non-Executive Director	n/a	n/a	○	✓	✓

n/a - Attendance at committee not mandated due to change of committee membership during the year.

○ - Attended as an observer prior to appointment at AGM.

Significant matters considered by the Committee

During 2022, the Committee:

- 1 Provided close focus and facilitated Board discussions on inflationary and interest rate risks, the war in Ukraine and other principal risks and emerging risks, and their prevailing pressures on solvency, asset share coverage and cost of guarantees;
- 2 Continued the development of the Risk Management Framework to enable effective oversight of the Society's risks and the Committee's ability to understand and manage risks;
- 3 Review of operational risk tolerances and new regulatory guidelines; and
- 4 Played an active role in challenging and helping to shape the 2022 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.

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:

	15 Mar	14 Jun	13 Sept	28 Sept	8 Nov
Cameron Mills Chair and Non-Executive Director	✓	✓	✓	✓	✓
Mark Myers Non-Executive Director	✓	✓	✓	✓	✓
Joanne Hindle Retired Non-Executive Director	X	✓	n/a	n/a	n/a
Nasrin Hossain Executive Director	✓	✓	✓	✓	✓
Neil Tinegate Non-Executive Director	n/a	O	✓	✓	✓
Nemone Wynn-Evans Non-Executive Director	n/a	✓	✓	✓	✓

n/a - Attendance at committee not mandated due to change of committee membership during the year.

O - Attended as an observer prior to appointment at AGM.

Significant matters considered by the Committee

Significant items considered during 2022:

- 1 Reviewed the With-Profits Actuary reports on PPFM compliance and the exercise of discretion in 2021;
- 2 Reviewed the With-Profits Actuary report and Board report to with-profits policyholders;
- 3 Reviewed the investment performance of the Society's investments;
- 4 Consideration of product launch by the Society's strategic partners; and
- 5 Considered and recommended to the Board the bonus rates for with-profits and Holloway policyholders in respect of 2022.

Board Committee Reports

Nominations and Governance Committee

Key Responsibilities

The Nominations and Governance Committee is responsible for independent oversight of 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:

	18 Jan	14 Jun	13 Sept	11 Nov
Nemone Wynn-Evans Chair and Non-Executive Director	n/a	n/a	✓	✓
Joanne Hindle Retired Non-Executive Director	✓	✓	n/a	n/a
Cameron Mills Non-Executive Director	✓	✓	✓	✓
Alison McKinna Non-Executive Director	n/a	○	✓	✓

n/a - Attendance at committee not mandated due to change of committee membership during the year.

○ - Attended as an observer prior to appointment at AGM.

Significant matters considered by the Committee

Significant items considered during 2022:

- 1 Reviewed progress on the Society's climate change strategy and details are set out on pages 11 to 12;
- 2 Reviewed the Society's initiative on diversity, equality and inclusion and details are set out on page 21;
- 3 Oversight and review of the development of the Society's Governance and Management Responsibilities Map;
- 4 Reviewed the Board and Senior Management function succession plan and the new talent management framework;
- 5 Reviewed the Board Diversity Policy; and
- 6 Review of the effectiveness of operational and organisational structures in supporting strategic business objectives and talent management; and
- 7 Appraised the performance of the non-executive directors and the Board Committees against their objectives.

Board Committee Reports

Remuneration and Engagement Committee

Key Responsibilities

The Remuneration and Engagement Committee is responsible for having oversight of remuneration structures within the organisation, ensuring that they are competitive and will attract and retain the best people. It also designs the overall remuneration package for the Chief Executive Officer. The Committee provides oversight of how the Society's remuneration policy and practices affect the Society's engagement with its employees.

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

Committee Membership

There were four meetings in the year as follows:

	18 Jan	14 Jun	13 Sept	8 Nov
Simon Pashby Chair from 28 June 2022 and Non-Executive Director	✓	✓	✓	✓
Joanne Hindle Chair until retirement on 28 June 2022	✓	✓	n/a	n/a
Nemone Wynn-Evans Non-Executive Director	✓	✓	✓	✓
Alison McKinna Non-Executive Director	n/a	○	✓	✓

n/a - Attendance at committee not mandated due to change of committee membership during the year.

○ - Attended as an observer prior to appointment at AGM.

Significant matters considered by the Committee

Directors' Remuneration Policy and Remuneration.

The Committee had oversight and recommended to the Board the approval of the remuneration policy and the remuneration of the Chief Executive for 2022. The details of the remuneration for the directors in 2022 are set out in the Directors' Remuneration Report on pages 35 to 37.

Directors' Remuneration Report

The Remuneration and Engagement Committee provides 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 has approved the Remuneration Policy which is implemented and governed by the Remuneration & Engagement 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 all relevant regulatory obligations. We also comply with good corporate governance practice as well as relevant principles of the AFM Code.

This policy provides the framework within which all remuneration decisions relating to people and Executives will be made. The Society aims to ensure that our approach to reward and remuneration is straightforward and easy for our people to understand and aligns with our brand values of simplicity, working together and doing the right thing.

Executive Directors' Remuneration

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

Directors' Remuneration Report

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 bonus has a maximum potential of 30% of basic salary. The targets are monitored at various intervals during the financial year. The final bonus calculations are based principally on the performance of the Society measured against the agreed targets and subject to the Committee's discretion.

The bonus payable is recommended for approval by the 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, or can participate in alternative personal pension arrangements as approved by the Committee. Contribution entitlements can be paid in cash instead, at no further cost to the Society and subject to approval by the Committee where individuals would incur tax if pension contribution limits are exceeded.

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 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.

Directors' Remuneration Report

Board Remuneration 2022

The remuneration of the Executive and other members of the Board is set out in the audited table below.

Name	Basic pay (£)	Bonus (£)	Pension supplement (£)	Other Benefits ³ (£)	Total 2022 (£)	Total 2021 (£)
Executives						
A M O'Dea	233,736	62,917	23,202	2,313	322,168	311,352
N Hossain	117,436	35,081	10,055	1,772	164,344	152,208
S Chivers	122,861	36,858	10,565	814	171,098	164,343
C Critchlow	152,712	45,814	14,961	17,221	230,708	201,878
	626,745	180,670	58,783	22,120	888,318	829,781
Non-Executives						
N Wynn-Evans	54,382	–	–	1,337	55,719	44,514
S Pashby	35,583	–	–	1,450	37,033	32,424
C Mills	30,092	–	–	909	31,001	29,392
M Myers	30,092	–	–	2,351	32,443	30,343
N Tinegate ¹	15,745	–	–	496	16,241	–
A McKinna ¹	15,745	–	–	617	16,362	–
J Hindle ²	15,046	–	–	773	15,819	41,601
	196,685	–	–	7,933	204,618	178,274
Total	823,430	180,670	58,783	30,053	1,092,936	1,008,055

1 Appointed on 28 June 2022

2 Retired on 28 June 2022 and previous Board Chair until 30 June 2021

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.



Simon Pashby
Remuneration and
Engagement Committee Chair
24 April 2023

Independent auditor's report to the members of the Shepherds Friendly Society Limited

Opinion on the Financial Statements

In our opinion, the 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 2022 and of the Group's and of the Society's deficit 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 requirements of 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 2022 which comprise the Group and Society statements of comprehensive income, the Group and Society statements of financial position and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 **The Financial Reporting Standard applicable in the UK and Republic of Ireland** and Financial Reporting Standard 103 **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. Our audit opinion is consistent with the additional report to the Audit and Compliance Committee.

Independence

Following recommendation of the Audit and Compliance Committee, we were appointed by the Members of the Society on 21 September 2010 to audit the financial statements for the year ended 31 December 2010, and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 13 years, covering the years ended 31 December 2010 to 31 December 2022.

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's and the Society's ability to continue to adopt the going concern basis of accounting included:

- Challenging the appropriateness of the Directors' assumptions and judgements made in their budgets and forecasts. In doing so we agreed key assumptions such as forecast growth to historic actuals, relevant market data and our general commercial and sector experience and considered the historical accuracy of the Directors budgets and forecasts;
- Reviewing the latest Own Risk and Solvency Assessment provided by the Society, checking that stress testing was performed and checking the results of the stress testing. Stress testing was performed for scenarios such as: a significant reduction in new business; significant increases in interest rates; a significant reduction in asset values; and significantly adverse experience relating to key assumptions used to determine technical provisions. In addition, we reviewed the solvency projections, reconciling current positions to the financial statements and assessed the Directors' assumptions embedded within the model for reasonableness. We have also checked that the modelling used for solvency is in line with industry standards; and
- Assessing how the Directors have factored in key external factors expected to affect the Group and Society, checking these had been appropriately considered as part of the Directors' going concern assessment.

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's 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

Key audit matters ("KAM")

	2022	2021
Valuation of technical provisions	X	X
Investment valuation	-	X

Investment valuation is no longer considered to be a key audit matter because the Group and Society have no level 3 investments in the current year. These were disposed of in the prior year.

Materiality

Group financial statements as a whole

£493,000 (2021: £564,000) based on 3% (2021: 3%) of the fund for future appropriations.

Independent auditor's report to the members of the Shepherds Friendly Society Limited

An Overview of the Scope of our Audit

Our audit approach was developed by obtaining an understanding of the Group and Society's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Group and Society's transactions and balances which were most likely to give risk to a material misstatement.

The Group is made up of the Society and the two subsidiaries being Financial Advice Network Limited and Financial Advice Website Limited.

The Society was considered to be the only significant component and a full scope audit was performed by the Group audit team.

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

Key Audit Matter	How the scope of our Audit addressed the Key Audit Matter
<p>Valuation of Technical Provisions</p> <p>The Society's accounting policies are disclosed in note 3 and note 19.</p> <p>There is an inherent risk that insurance technical provisions can be misstated due to the fact that estimates are necessarily involved, and as such, there is an element of subjectivity in any such provision.</p> <p>The calculation of the Group's and Society's insurance technical provisions requires management to make significant judgements about a variety of assumptions including (but not limited to) mortality assumptions, lapse rates, investment yields, discount rates and the current expectation of future expenses.</p> <p>We have assessed this area as being of significant risk to the audit and a key audit matter due to the significance of these amounts in deriving the Group's and Society's results and because of the degree of assumptions and estimation underpinning the calculation, which can be highly subjective.</p>	<p>In assessing the valuation of the technical provisions, we performed the following procedures:</p> <ul style="list-style-type: none">• We have obtained and reviewed the actuarial reports prepared by the Group's and Society's Actuary.• With the assistance of our external actuarial expert, whom we engaged for their expertise in life and income protection insurance, we have:<ul style="list-style-type: none">- Assessed the appropriateness of the methodology and the reasonableness of assumptions applied by management in their calculation of the provision; and- Tested the accuracy of the calculation of the provision.• We obtained an understanding of the conclusions in the actuarial reports prepared by the Group's and Society's Actuary and by our external actuarial expert, and assessed whether all the relevant judgements and estimates have been considered in the calculation of the provision.• We have challenged the conclusions arrived at by our external actuarial expert and checked that their processes are in accordance with both Technical Actuarial Standards (TAS) and industry practices.• We considered the competence, capabilities, objectivity, and independence of the external actuarial expert engaged by us.• We obtained the data which was provided to the Group's and Society's actuaries and our own external actuarial expert to perform their calculations and performed a reconciliation to the nominal ledger.• We agreed a sample of data for new members to the policy admin system to test that the underlying policy data had been correctly entered.• We have reviewed key changes to the prior year assumptions used in the technical provisions and, with the assistance of our actuarial expert, have assessed whether these are reasonable and in line with acceptable parameters. <p>Key Observations:</p> <p>As a result of the procedures performed, we did not identify any matters to suggest that the assumptions applied by management in valuing the technical provisions are inappropriate.</p>

Independent auditor's report to the members of the Shepherds Friendly Society Limited

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.

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	
	2022 £'000's	2021 £'000's	2022 £'000's	2021 £'000's
Materiality	493	564	492	562
Basis for Determining Materiality	<p>3% (2021: 3%) of Fund for Future Appropriations.</p> <p>We determined Fund for Future Appropriations to be the most appropriate 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.</p>			
Performance Materiality	370	423	369	422
Basis for Determining Performance Materiality	<p>75% of Materiality</p> <p>On the basis of our risk assessment together with factors such as our assessment of the Group and Society's overall control environment, and expected total value of known and likely misstatements, based on past experience, our judgement was that overall performance materiality for the Group and Society should be 75% of materiality.</p>			

Reporting Threshold

We agreed with the Audit and Compliance Committee that we would report to them all individual audit differences in excess of £10,000 (2021: £11,000). 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 Annual Report 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

Independent auditor's report to the members of the Shepherds Friendly Society Limited

Responsibilities of Directors

As explained more fully in the Statement of Responsibilities of the Board of Directors, 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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and Society and the industry in which they operate;
- Discussion with management and those charged with governance; and
- Obtaining and understanding of the Group's and Society's policies and procedures regarding compliance with laws and regulations;

We considered the significant laws and regulations to be the Friendly Societies Act 1992, Friendly Societies (Accounts and Related Provisions) Regulations 1994, Financial Reporting Standards 102 and 103 applicable in the UK and Republic of Ireland and the AFM Corporate Governance Code.

The Group and Society are also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Independent auditor's report to the members of the Shepherds Friendly Society Limited

Our Procedures in Respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory authorities for any instances of non-compliance with laws and regulations; and
- Review of financial statement disclosures and agreeing to supporting documentation.

Irregularities including fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's and Society's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.

- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Maintaining professional scepticism when performing our testing and considering if the results of such testing are indicative of fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be the valuation of technical provisions and management override of controls.

Our Procedures in Respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation; and
- Assessing significant estimates made by management in relation to the valuation of technical provisions for bias (refer to the key audit matters section for procedures performed).

Independent auditor's report to the members of the Shepherds Friendly Society Limited

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were deemed to have the necessary competence and capabilities, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 section 73 of 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.



Rupert Livingstone

Senior Statutory Auditor
For and on behalf of BDO LLP,
Statutory Auditor London, UK

28 April 2023

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 2022

		Group		Society	
Technical Account: Long Term Business	Notes	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Income					
Earned Premiums, net of reinsurance					
Gross Premiums written	4	35,325	31,760	35,325	31,760
Outward Reinsurance premiums		(2,030)	(1,513)	(2,030)	(1,513)
Net Premiums		33,295	30,247	33,295	30,247
Investment Income					
Other Investments	5	-	3	-	403
Gains/(Losses) on the realisation of Investments	5	301	(1,592)	301	(1,592)
Unrealised (losses)/gains on Investments	5	(1,064)	11,832	(1,064)	11,832
		(763)	10,243	(763)	10,643
Other technical income	6	62	153	33	111
Total technical income		32,594	40,643	32,565	41,001
Expenditure					
Claims incurred, net of reinsurance					
Claims paid	19(a)	16,095	14,172	16,095	14,172
Change in the provision for claims	19(a)	(194)	215	(194)	215
		15,901	14,387	15,901	14,387
Changes in technical provisions, net of reinsurance					
Movement on long-term business provision net of reinsurance	19(a)	4,391	10,687	4,391	10,687
Movement on provision for Linked Liabilities Investment Contracts	19(b)	(361)	5,337	(361)	5,337
Movement on other technical provisions	19(c)	524	433	524	433
		4,554	16,457	4,554	16,457
Net operating expenses					
Other operating expenses	7	14,881	11,873	14,881	11,873
Investment Expenses and charges	9	172	165	172	816
		15,053	12,038	15,053	12,689
Other technical charges	10	44	130	-	-
Tax on other technical net income	12	(7)	-	-	-
Total technical expenditure		35,545	43,012	35,508	43,533
Deficit of income over expenditure		(2,951)	(2,369)	(2,943)	(2,532)
Transfer from Fund for Future Appropriations	18	2,951	2,369	2,943	2,532
Balance on technical account - long term business		-	-	-	-
Other comprehensive income					
Items that will not be reclassified to technical account					
Actuarial gain on pension scheme	22	613	430	613	430
Transfer to Fund for Future Appropriations	18	(613)	(430)	(613)	(430)
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 49 to 76 form part of these financial statements.

Statement of Financial Position

as at 31 December 2022

		Group		Society	
	Notes	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Assets					
Investments					
Investment in Subsidiaries	13(c)	-	-	-	-
Other Financial Investments at fair value	13(b)	74,083	71,463	74,083	71,463
		74,083	71,463	74,083	71,463
Assets held to cover linked liabilities	13(b)	39,267	39,587	39,267	39,587
		113,350	111,050	113,350	111,050
Debtors: amounts receivable within one year					
Debtors arising out of direct insurance operations	14	27	21	27	21
Debtors arising out of reinsurance operations	14	-	66	-	66
Other Debtors	14	3,516	315	3,516	315
		3,543	402	3,543	403
Intangible assets	16	822	576	822	576
Other Assets					
Tangible assets	15	353	367	353	367
Cash at bank and in hand	17	5,145	2,237	5,098	2,229
		5,498	2,604	5,451	2,596
Prepayments and accrued income		382	346	382	303
Long Term Business Provision for protection benefit	19(a)	49,211	48,378	49,211	48,378
Reinsurers' share of technical provisions	19(a)	12,003	15,165	12,003	15,165
Pension scheme asset	22	312	-	312	-
Total assets		185,121	178,521	185,074	178,470
Liabilities					
Fund for Future appropriations	18	16,449	18,787	16,406	18,736
Technical Provisions					
Long Term Business Provision for benefits excluding protection	19(a)	93,547	93,931	93,547	93,931
Reinsurers' share of technical provisions		2,447	-	2,447	-
Technical Provision for Linked Liabilities - Investment Contracts	19(b)	39,267	39,587	39,267	39,587
Other technical provisions	19(c)	29,204	21,773	29,204	21,773
Claims outstanding	19	1,321	1,485	1,321	1,485
		165,786	156,776	165,786	156,776
Creditors					
Creditors arising out of direct insurance operations		321	133	321	133
Creditors arising out of reinsurance operations		18	-	18	-
Other creditors, including taxation and social security	20	1,154	1,104	1,150	1,103
		1,493	1,237	1,489	1,236
Accruals		1,393	1,351	1,393	1,352
Pension scheme liability	22	-	370	-	370
Total liabilities		185,121	178,521	185,074	178,470

The attached notes on pages 49 to 76 form part of these financial statements.

The financial statements on pages 49 to 76 have been approved by the Board on 24th April 2023.



Nemone Wynn-Evans
Board Chair



Ann-Marie O'Dea
Chief Executive Officer

Notes to the Financial Statements

1 General Information

Shepherds Friendly is a trading name of The Shepherds Friendly Society Limited ("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 pages 21 to 24.

2 Significant Accounting Policies

This note describes the Group's significant accounting policies that have been applied to the financial statements and the notes as a whole. If an accounting policy is applicable to a specific item, the accounting policy is contained within the relevant note.

(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 Group, being a mutual life assurance company, is also exempt from the requirements under FRS 102 Section 7 to produce a cash flow statement.

The financial statements have been prepared on the historical cost basis, except for the revaluation of 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

After making enquiries and reviewing the going concern assessment for 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.

Notes to the Financial Statements (continued)

(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 results of the subsidiaries are included with Other Technical Income and Other Technical Charges. The net results are included in the Fund for Future Appropriations ("FFA") for the Group. Intragroup balances, transactions and unrealised gains and losses on intragroup transactions are eliminated in full.

(d) Foreign Currencies

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 and whether the amount payable is significantly more than when the insured event has not occurred. Based on our assessment, products listed in Note 19(a) have been classified as "insurance contracts" or "participating investment contracts".

(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 intangible assets

The valuation of intangible assets are based on assumptions over the life expectancy and expected use of the asset. These assumptions are reflected in the amortisation rate of the asset.

(ii) 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 19(a) sets out the assumptions underlying the valuations. The assumptions are based on recent observed experience to 31 December 2022.

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.

Notes to the Financial Statements (continued)

The assumptions used for discount rates are based on current Prudential Regulation Authority (PRA) and the regulators 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. In the prior year, the PRA's basis of measurement of the risk-free rates basis were changed from LIBOR to SONIA following the UK's exit from EU.

The main assumption underlying these techniques is that past claims development experience is used to project claims costs. Uncertainties around one-off occurrences or changes in legislation, policy conditions or portfolio mix are also considered to arrive at the estimated cost of claims in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the actual costs are different from the estimates, where assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in the year that the difference arises.

(iii) Pension scheme valuation

Pension plan valuation 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 22 to these financial statements.

4 Earned Premium Analysis

Insurance Contracts and Participating Investment Contracts

Regular premiums on long-term insurance and participating investment contracts are recognised as income when the premium is receivable from the policyholder. For single premium business, recognition occurs on the date of premium receipt. 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.

	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Group and Society				
Regular Premiums				
Insurance contracts	10,571		9,442	
Participating investment contracts	13,254		11,467	
		23,825		20,909
Single Premiums				
Participating investment contracts	11,500		10,851	
		11,500		10,851
Gross premium written		35,325		31,760
Outward reinsurance premiums		(2,030)		(1,513)
Earned premiums		33,295		30,247
Of which earned in				
United Kingdom		33,284		30,235
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.

Premiums of £7,300,000 in 2022 (2021: £4,406,000) 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 19(b)) and other technical provisions in the Statement of Financial Position (note 19(c)).

Notes to the Financial Statements (continued)

5 Investment Income

Investment income includes dividends, interest 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, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Dividend income (note 13(c))	-	-	-	400
Other investment income	-	3	-	3
Realised losses on disposal of investment property (note 13(a))	-	(215)	-	(215)
Realised gains/(losses) on financial assets disposed during the year	301	(1,377)	301	(1,377)
Unrealised fair value (losses)/gains on revaluation of financial assets	(1,064)	11,832	(1,064)	11,832
	(763)	10,243	(763)	10,643

6 Other Technical Income

Other technical income relates to fee income where the Group acts as an introducer to third-party providers and commission income.

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Introducer fee income	35	111	33	111
Network commission income	9	42	-	-
Other income	18	-	-	-
	62	153	33	111

7 Group and Society Net Operating Expenses

Other technical income relates to fee income where the Group acts as an introducer to third-party providers and commission income.

Group and Society		
	2022 £'000	2021 £'000
Acquisition costs	13,300	10,925
Administration expenses	2,552	2,312
Reinsurance commission	(971)	(1,364)
	14,881	11,873

Notes to the Financial Statements (continued)

Included in the operating expenses are:

Group and Society		
	2022 £'000	2021 £'000
Auditor's remuneration for financial statements audit services, excluding VAT	104	80
	104	80

The subsidiaries of the Society are exempt from the audit requirements by virtue of s479a of Companies Act 2006. The auditors received no other remuneration.

8 Staff Costs

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

	2022	2021
Board Members	10	9
Staff - Acquisition	51	45
Staff - Administration	22	19
	83	73

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

	2022 £'000	2021 £'000
Wages and salaries	4,249	3,432
Social security costs	497	367
Pension costs	428	400
	5,174	4,199

The above costs are included within Other operating expenses on the Statement of Comprehensive Income. Details of Directors' emoluments are contained in the Directors' Remuneration Report on pages 35 to 37.

9 Investment Expenses and Charges

Investment expenses and charges comprise costs relating to the investing activities of the Group and the Society.

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Property management expenses	25	56	25	56
Investment management fees	147	109	147	109
Charges on investment in subsidiaries	-	-	-	651
	172	165	172	816

Notes to the Financial Statements (continued)

10 Other Technical Charges

Other technical charges in the Group refers to the administration expenses incurred by the Group's subsidiaries.

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Subsidiaries' administration expenses	44	130	-	-
	44	130	-	-

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 and an Executive Director for the Society in the financial year ended 31 December 2022 and the prior year.
2. Mr Critchlow's remuneration received as an Executive Director 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 the With-Profits Actuary in the financial year ended 31 December 2022 and the prior year. Mrs Spinks was an employee of OAC plc in 2022 and in the prior year. Neither Mrs Spinks, her husband or her children were members of the Society at any time during 2022 and the prior year.
2. Neither Mrs Spinks, her husband or children had any financial interest in any transaction with the Society during 2022 and the prior year, other than as With-Profits Actuary to the Society.
3. The only remuneration was the fee for professional services paid to OAC plc for the services provided. The amount paid to OAC plc for her professional services amounted to £26,486 (2021: £22,915). No other benefits, emoluments, pensions or compensation was paid to her.
4. Mrs Spinks did not receive, and will not receive, any other financial benefit from the Society.

Notes to the Financial Statements (continued)

12 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.

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Corporation Tax				
Tax (credit)/charge	(7)	-	-	-
Deferred Tax				
Timing differences, origination and reversal	-	-	-	-
Total tax (credit)/charge	(7)	-	-	-

During May 2021, the UK Government enacted an increase in the future rate of UK corporation tax from 19% to 25% which will apply from 1 April 2023. This rate has been reflected in deferred tax where applicable.

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% (2021: 20%). The applicable UK corporation tax rate is 19% for the subsidiaries (2021: 19%).

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 2022, the Group did not hold any provisions for uncertain tax positions.

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Reconciliation of Current Year Tax Charge				
Deficit of income over expenditure before tax	(2,958)	(2,369)	(2,943)	(2,532)
Tax on deficit at 19% (2021: 19%)	(562)	(450)	(559)	(481)
Factors affecting tax charge				
Accounting profit not subject to policyholder tax	559	463	559	481
Non-taxable income	(4)	(29)	-	-
Accelerated capital allowances	-	-	-	-
Movement in unprovided deferred tax asset	7	16	-	-
Prior year tax adjustment	(7)	-	-	-
Total tax (credit)/charge	(7)	-	-	-

The prior year tax charge in respect of the Group is for Financial Advice Network Limited.

The Society has an unrecognised deferred tax asset of £1,436,000 (2021: £1,261,000) which is made up of deductible expenses carried forward and unrealised gains. It is not currently considered probable that these losses will be utilised and therefore the deferred tax asset continues not to be recognised.

Notes to the Financial Statements (continued)

13 Investments

(a) Land and Buildings (Group and Society)

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 arms' length transaction is used to determine the fair value.

	Market Valuation	Market Valuation
	2022 £'000	2021 £'000
As at 1 January	-	1,112
Net (loss)/gain from fair value adjustments	-	-
Realised losses on disposal of investment property	-	(215)
Net proceeds on disposal	-	(897)
	-	-

Following disposal of the investment land and buildings in the prior year, the cost of the investment property was £nil as at 31 December 2022 (2021: £nil) for the Group and the Society.

The net proceeds on disposal in the prior year were based on proceeds of £900,000 and after selling costs of £3,000. The valuation in the prior year has been based on its alternative use as determined in an arm's length transaction with a purchaser.

Notes to the Financial Statements (continued)

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

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.

	Cost	Market Valuation	Cost	Market Valuation
	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Pooled investments	76,649	74,083	69,037	71,463
	76,649	74,083	69,037	71,463
Assets held to cover Linked Liabilities	24,864	39,267	25,146	39,587
	101,513	113,350	94,183	111,050

See note 13(e) for fair value measurement techniques applied to financial assets. Total proceeds received from disposal of investments in the year was £2,125,000 and the realised gains on disposal was £301,000.

(c) Investment in Subsidiaries (Society)

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

The Society owns 100% of the ordinary share capital of Financial Advice Network Limited (company previously traded 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 2022.

	2022 £'000	2021 £'000
Shares in subsidiaries	-	-

In the prior year, the cost of the investments held by the Society was impaired by £500,000. This reflects the reduction in net assets held by the subsidiary after dividends were paid to the Society.

Notes to the Financial Statements (continued)

(d) Derivative Financial Instruments (Group and Society)

In 2022, the Group and the Society had entered into a gilt derivative contract to reduce its exposure to interest rate risks. The Group and the Society do not hold or issue derivative financial instruments for speculative purposes, and have not designated the derivative as a hedging instrument. Initial cash margin is exchanged at the outset of the contract and held by the broker in the form of cash. To mitigate counterparty default risk, variation margin is exchanged on a daily basis in response to changes in the value of the derivative.

The Group and the Society paid an initial cash margin £2,587,000 (2021: £nil), which is included in "Amount due from brokers" (note 14).

The net variation margin receivable by the Group and the Society was £824,000 (2021: £nil), being the amount due for the movement on the last business day of 2022 and which was settled in January 2023. This balance is also included in "Amount due from brokers" (note 14).

The contract has no market value at the date of the Statement of Financial Position because the variation margin is settled on a daily basis.

Society and Group		
	2022 £'000	2021 £'000
Contract/notional amount	21,079	-
	21,079	-

(e) 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.

Financial Assets	Group and Society 2022			Group and Society 2021		
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets held to cover linked liabilities	39,267	-	-	39,587	-	-
Pooled Investments	-	74,083	-	-	71,463	-
	39,267	74,083	-	39,587	71,463	-

Notes to the Financial Statements (continued)

14 Debtors: Amounts Receivable within One Year

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 19 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 (note 19). They are measured on a consistent basis to the reinsured insurance contracts.

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Debtors arising out of direct insurance operations	27	21	27	21
Debtors arising out of reinsurance operations	-	66	-	66
Amount due from brokers	3,254	-	3,254	-
Other debtors	262	315	262	315
	3,543	402	3,543	402

Other debtors include clawback commission debtors which are stated after provisions for impairment of £672,000 (2021: £578,000)

15 Tangible Assets

Tangible assets are capitalised and depreciated 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 and fittings are depreciated between four and eight years.
- Property Improvements associated with rental leases are amortised over the length of the lease.

Assets, other than those measured at fair value are assessed for indicators of impairment. Any impairment loss is recognised as investment expenses and charges in the Statement of Comprehensive Income.

	Society Property Investment £'000	Society Fixtures and Fittings £'000	Society Total £'000	Group Total £'000
Cost				
At 1 January 2022	392	255	647	659
Additions	-	54	54	54
Disposals	-	-	-	-
At 31 December 2022	392	309	701	713
Depreciation				
At 1 January 2022	87	193	280	292
Provided for in the year	28	40	68	68
Disposals	-	-	-	-
At 31 December 2022	115	233	348	360
Net Book Value				
31 December 2022	277	76	353	353
31 December 2021	305	62	367	367

There are no assets acquired during 2022 using a finance lease arrangement (2021: £nil).

Notes to the Financial Statements (continued)

16 Intangible Assets

Intangible assets are capitalised and amortised by equal annual installments over their estimated useful life. Intangible computer software is amortised between two and five years.

Assets, other than those measured at fair value are assessed for indicators of impairment. Any impairment loss is recognised as investment expenses and charges in the Statement of Comprehensive Income.

	Society Software	Society Total	Group Total
	£'000	£'000	£'000
Cost			
At 1 January 2022	2,065	2,065	2,332
Additions	613	613	613
Disposals	-	-	-
At 31 December 2022	2,678	2,678	2,945
Depreciation			
At 1 January 2022	1,489	1,489	1,756
Provided for in the year	367	367	367
Disposals	-	-	-
At 31 December 2022	1,856	1,856	2,123
Net Book Value			
31 December 2022	822	822	822
31 December 2021	576	576	576

17 Cash at Bank and In Hand

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

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash at bank and in hand	1,719	2,237	1,672	2,229
Cash equivalents	3,426	-	3,426	-
	5,145	2,237	5,098	2,229

Notes to the Financial Statements (continued)

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

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.

	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Fund for Future Appropriations (Group)				
Balance at 1 January		18,787		20,726
Transfer (to)/from Technical Account	(2,951)		(2,369)	
Transfer from/(to) Other Comprehensive Income	613		430	
		(2,338)		(1,939)
Balance at 31 December		16,449		18,787
Fund for Future Appropriations (Society)				
Balance at 1 January		18,736		20,838
Transfer (to)/from Technical Account	(2,943)		(2,532)	
Transfer from/(to) Other Comprehensive Income	613		430	
		(2,330)		(2,102)
Balance at 31 December		16,406		18,736

19 Technical Provisions (Group and Society)

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. The contract classification has been determined by assessing contracts at inception as required under FRS 103. See note 3(a).

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. Based on our assessment, investment products listed in Note 19(a) have been classified as "participating investment contracts". The unit-linked products and fixed rate bond product are classified as "non-participating investment contracts".

Notes to the Financial Statements (continued)

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.

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 or 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.

Notes to the Financial Statements (continued)

(a) Long Term Business Provision

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

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

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

Business Type	Valuation Method
Life Business	
Regular premium life	Asset share plus cost of guarantee
Unitised with-profits pension	Reserves equal to the value of the units
With-profits Bond (series I and II)	Asset share plus cost of guarantee
Over 50s and other non-profit life business	Gross premium method of valuation, 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, Shepherds Income Protection Plan and other IP contracts.	<p>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.</p> <p>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.</p>

(ii) Discount Rate of Interest

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

(iii) 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 inflation forecasts published by the Bank of England.

Notes to the Financial Statements (continued)

(iv) 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.

	2022	2021
Life Business excl. Over 50s and ISAs	100% AXC00	100% AXC00
Over 50s	200% - 400% AXC00	200% - 400% AXC00
Income Protection	50% AXC00	100% AXC00
Holloway	100% AXC00	100% AXC00
ISAs	80% AXC00	80% AXC00

(v) 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 at the end of 2022 and those used at the end of 2021.

Inception rates	2022	2021
Adult Holloway	25% inceptions	25% inceptions
Young Holloway	10% inceptions	10% inceptions
SIPP Holloway	70% inceptions	100% inceptions
Non-profit Income Protection	12% - 45% of CMIR12 inception rates depending on deferred period	12% - 40% of CMIR12 inception rates depending on deferred period
Recovery rates		
Adult Holloway	100% of CMIR12	100% of CMIR12
Young Holloway	100% of CMIR12	100% of CMIR12
SIPP Holloway	100% of CMIR12	100% of CMIR12
Non-profit Income Protection	45% - 1000% of CMIR12 recovery rates depending on deferred period	40% - 720% of CMIR12 recovery rates depending on deferred period

(vi) Persistency

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

Notes to the Financial Statements (continued)

(vii) Options and Guarantees

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

	2022			2021		
	£'000 Gross	£'000 Reinsurers' share	£'000 Net	£'000 Gross	£'000 Reinsurers' share	£'000 Net
Balance at 1 January	45,553	(15,165)	30,388	32,168	(12,467)	19,701
Premiums received	35,325	(2,030)	33,295	31,760	(1,513)	30,247
Claims paid	(17,191)	1,096	(16,095)	(15,071)	899	(14,172)
Change in the provision for claims	158	36	194	(542)	327	(215)
New business	(3,350)	184	(3,166)	(8,270)	(3,087)	(11,357)
Experience, assumptions and other changes	(15,593)	6,323	(9,270)	5,508	676	6,184
Changes in methodology	(566)	-	(566)	-	-	-
Balance at 31 December	44,336	(9,556)	34,780	45,553	(15,165)	30,388
Balance at 31 December comprises						
Long Term Business Provision for protection benefit and reinsurers' share	(49,211)	2,447	(46,764)	(48,378)	-	(48,378)
Long Term Business Provision for benefits excluding protection and reinsurers' share	93,547	(12,003)	81,544	93,931	(15,165)	78,766
	44,336	(9,556)	34,780	45,553	(15,165)	30,388

The Society has a reinsurance arrangement for its Over50s and Income Protection book of business.

Further details on the movement in the year and its impact on the FFA is provided in the Strategic Report on page 4.

(b) Linked Liabilities - Investment Contracts

	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Balance at 1 January		39,587		34,222
Net contributions from members		41		28
Gains/(losses) on assets held for linked liabilities	264		5,987	
Fees deducted	(625)		(650)	
Movement on linked liabilities in Technical Account		(361)		5,337
Balance at 31 December		39,267		39,587

Notes to the Financial Statements (continued)

(c) Other Technical Provisions

	2022 £'000	2021 £'000
Balance at 1 January	21,773	17,323
Net contributions from members	6,907	4,017
Interest attributed to policyholders in the year	524	433
Balance at 31 December	29,204	21,773

Fixed rate bonds issued by the Society meet the classification criteria for investment contracts and therefore presented as Other Technical Provisions.

(d) Claims Outstanding

	2022 £'000	2021 £'000
Gross Amount	2,009	2,008
Reinsurance amount	(688)	(523)
Balance at 31 December	1,321	1,485

20 Other Creditors, including Taxation and Social Security

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Amounts due to members	527	327	527	327
Taxation and social security	177	307	173	307
Other creditors	450	470	450	469
	1,154	1,104	1,150	1,103

Notes to the Financial Statements (continued)

21 Operating Rent and Lease Commitments

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.

Society and Group		
	2022 £'000	2021 £'000
Total Payable under Non-Cancellable Operating Leases are as follows:		
Amounts falling due < 1 year	92	96
Amounts falling due 2 - 5 years	679	587
Amounts falling due 5 years +	905	1,078
	1,676	1,761

Other operating expenses in the Statement of Comprehensive Income includes operating lease payments of £97,000 for 2022 (2021: £98,000).

22 Pension Scheme Obligations (Group and Society)

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.

The Group and Society also operate a Final Salary defined benefit pension scheme, although now closed to new entrants. The pension scheme closed to member contributions on 8 January 2018. 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 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.

As at 31 December 2022 the present value of the defined benefit obligation is less than the fair value of the scheme assets resulting in a net surplus. The Trust Deed of the Scheme denotes that the Society has unconditional rights to a refund of a surplus and therefore the surplus can be recognised in the Statement of Financial Position.

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

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.

Notes to the Financial Statements (continued)

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.

The defined benefit obligation includes an allowance for the impact of allowing for Guaranteed Minimum Pension (GMP) equalisation, following the Lloyd's Banking Group High Court ruling in October 2018. The allowance reflects the costs to cover higher future payments for affected members plus interest and arrears. Following the further judgement on 20 November 2020 no additional allowance has been included for the effect of equalising GMPs for pension scheme members who have previously transferred out due to the fact the impact on the gross pension liability is not deemed to be significant.

(a) Assumptions

The most recent formal actuarial valuation was carried out as at 5 April 2021. The results have been updated to 31 December 2022 by a qualified independent actuary. The assumptions used were as follows. The actuarial assumptions can change depending on fluctuations in inflation and bond market conditions.

Year ended 31 December 2022			Year ended 31 December 2021	
Actuarial Assumptions				
Discount Rate	4.80% pa		1.80% pa	
Retail price inflation	3.10% pa		3.00% pa	
Consumer price inflation	2.30% pa		2.20% pa	
Rate of increase of pensions in payment <ul style="list-style-type: none">• CPI max 3%• RPI max 5%• RPI max 2.5%	2.10% pa 3.10% pa 2.20% pa		2.00% pa 3.00% pa 2.20% pa	
Rate of increase for deferred pensioners	2.30% pa		2.20% pa	
Demographic Assumptions				
Mortality (Pre retirement)	As per Post Retirement		As per Post Retirement	
Mortality (Post retirement)	S3PA_M CMI_2021_M/ F [1.00%] (yob)		S3PA_M CMI_2020_M/ F [1.00%] (yob)	
Life Expectancies	Male	Female	Male	Female
Life expectancy for an individual aged 65 in the year	21.2 years	23.6 years	21.2 years	23.5 years
Life expectancy at age 65 for an individual aged 45 in the year	22.3 years	24.8 years	22.2 years	24.7 years

Notes to the Financial Statements (continued)

(b) Sensitivity of Key Assumptions

The sensitivity of the defined benefit obligation to changes in the key assumptions is shown in the table below. This sensitivity analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

Increase in Defined Benefit Obligation		
	2022 £'000	2021 £'000
100 basis points decrease in discount rate	391	590
100 basis points increase in RPI	91	187
100 basis points increase in CPI	111	234

(c) Assets

The assets of the Scheme are invested as follows:

	31 December 2022		31 December 2021	
	Market Value £'000	% of Total Scheme Assets	Market Value £'000	% of Total Scheme Assets
Asset Class				
Gilts	785	24%	1,179	30%
Cash	85	3%	45	1%
Diversified Growth Funds	1,100	33%	1,246	31%
Diversified Credit Funds	917	28%	1,066	27%
Equities	405	12%	436	11%
	3,292	100%	3,972	100%

The actual return on the assets over year was a loss of £556,000 (2021: gain of £251,000).

(d) Reconciliation to the Statement of Financial Position

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Market Value of assets	3,292	3,972
Present Value of liabilities	(2,980)	(4,342)
Surplus/(Deficit) in the scheme	312	(370)
Pension liability recognised in the Statement of Financial Position before allowance for deferred tax	312	(370)

Notes to the Financial Statements (continued)

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

	Assets	DBO	Total
	£'000	£'000	£'000
As at 1 January 2022	3,972	(4,342)	(370)
Benefits paid	(199)	199	-
Employer contributions	75	-	75
Interest income/(cost)	70	(76)	(6)
Remeasurement gains/(losses):			
• Actuarial gains: changes in assumptions	-	1,430	1,430
• Actuarial losses: experience differing from the assumed	-	(191)	(191)
• Return on plan assets excluding interest income	(626)		(626)
As at 31 December 2022	3,292	(2,980)	312

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

	Year ended 31 December 2022	Year ended 31 December 2022
	£'000	£'000
Technical Account:		
Total Service Cost comprising past service cost	-	-
Net Interest	6	9
Amount charged to operating expenses in the Technical Account	6	9
Other Comprehensive Income:		
Remeasurement of the net defined benefit liability/(asset):		
Actuarial gains/(losses) on liabilities	1,239	225
Return on assets excluding amount included in net interest	(626)	205
Gain/(loss) recognised in Other Comprehensive Income	613	430
Total amount (credited)/charged to Statement of Comprehensive Income	(607)	(421)

(g) 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 2021. The Society agreed to pay £75,000 per annum for 4 years and 11 months from 1 January 2022. The Society therefore expects to pay £75,000 to the Scheme during the accounting year beginning 1 January 2023.

Notes to the Financial Statements (continued)

23 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 from page 4.

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 regulatory returns is the statutory capital requirement based on the requirements set by the regulators. 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 Resources

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 capital calculation.

The capital resources 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	
	2022 £'000	2021 £'000
Fund for Future Appropriations	16,406	18,736
Regulatory Solvency Adjustments	(643)	(1,704)
Total available capital resources	15,763	17,032
Solvency ratio (unaudited)	171%	166%

Notes to the Financial Statements (continued)

(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:

	2022 £'000	2021 £'000
Capital resources at 1 January	17,032	18,163
Changes in available capital due to:		
Model changes	566	-
Assumption changes	3,194	(1,012)
Investment returns credited to policyholders	(271)	(47)
Policy movements	(2,626)	(1,533)
New business	(2,814)	2,225
Change in risk margin not due to assumption changes	76	79
Change in current liabilities	103	(725)
Change in pension scheme	682	435
Other	(179)	(553)
Capital resources 31 December	15,763	17,032

Assumption changes in the year reflects the sickness recovery and inception experience, retention of Income Protection policies at longer durations and changes in risk free rates over 2022. New business reflects the increased with-profits business written over 2022 and without taking credit for future premiums on that book of business.

24 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 strategic report section of this Annual Report and Accounts details the Group's risk management and internal controls.

- The Board has responsibility for overseeing risk management.
- The Board Risk Committee provides oversight on risk management as a delegated functions on behalf of the Board.
- A strategic approach to mitigating risks 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.

Notes to the Financial Statements (continued)

(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 a business wide approach to risk identification, assessment, management and mitigation is in operation. Risks are continuously assessed as they change and develop. The following are the material risks arising from financial instruments that have been identified by the Group. A more detailed review of principal risks identified by the Group is covered in the Risk Management Section of the Strategic Report from pages 13 to 15.

(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. Managing these risks is a result of being open to new business. Low new business levels may result in an inability to cover the costs of writing that new business. The Group has continued to monitor new business levels. A stagnation in demand and increasing competition raise the risk of writing too little business. The Group's strategy is to maintain its diversified product range, selling to existing members and developing new routes to market to mitigate this risk.

(ii) Insurance Risk

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 and recover slower 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 policies are higher than anticipated.

The Society will always have to accept insurance risks if it is to remain open to new business. The inherent major risks within insurance books of business relate to policyholders having a different (worse) risk profile than was thought when they were sold a policy. When such risks appear the Society manages them in a manner of ways, such as in-depth claims management, negotiated early settlements, and review premiums in line with the terms and conditions of the product. The Society has also used reinsurance to transfer most of the mortality risk and some of the morbidity risk to third-party reinsurers.

The Society sells a range of products to generate distributable surplus for its with-profit 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 Society strives to deliver great service to its policyholders, to encourage high levels of policy retention.

Note 19 sets out the Technical provisions and the changes over the year. A sensitivity analysis of the Society's results to changes in insurance risks is included in Note 24(c).

Notes to the Financial Statements (continued)

(iii) 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 managed 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 be required.

2022 Cash flows (undiscounted)						
	Less than 1 year £'000	1–5 years £'000	6–10 years £'000	>10 years £'000	Total £'000	Balance sheet carrying value £'000
Group and Society						
Long term business provision	(3,844)	(7,074)	(28,451)	(7,971)	(47,340)	(34,780)
Linked liabilities	(2,264)	(25,347)	(11,656)	-	(39,267)	(39,267)
Other technical provisions	-	(31,733)	-	-	(31,733)	(29,204)
Net cash (outflow)/inflow	(6,108)	(64,154)	(40,107)	(7,971)	(118,340)	(103,251)

2021 Cash flows (undiscounted)						
	Less than 1 year £'000	1–5 years £'000	6–10 years £'000	>10 years £'000	Total £'000	Balance sheet carrying value £'000
Group and Society						
Long term business provision	(3,816)	(4,944)	(13,500)	(90)	(22,350)	(30,388)
Linked liabilities	(1,826)	(15,921)	(21,840)	-	(39,587)	(39,587)
Other technical provisions	-	(22,873)	-	-	(22,873)	(21,773)
Net cash (outflow)/inflow	(5,642)	(43,738)	(35,340)	(90)	(84,810)	(91,748)

Notes to the Financial Statements (continued)

(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. 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 24(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 Society employs external investment managers 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 and the Board's risk appetite.

(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) 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.

The Group and the Society has in place a derivative arrangement to reduce its exposure to interest rate volatility.

(c) Exchange Rate Risk

The Group and Society hold units in externally managed investment funds which are exposed to exchange rate risk. The Group does not directly hold assets exposed to exchange rate risk.

(vi) Credit Risk

Credit Spread Risk

The Group and Society hold units in externally managed investment funds which are exposed 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.

Notes to the Financial Statements (continued)

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.

	2022		2021	
	£'000	Credit Rating	£'000	Credit Rating
Other Financial Investments at fair value	74,083	A	71,463	A
Assets held to cover linked liabilities	39,267	AA	39,587	AA
Reinsurance assets	9,538	AA	15,231	AA
Cash at bank	1,719	A	576	A
Cash equivalents	3,426	A	-	-
Amount due from brokers	3,254	A	-	-
Trade and other debtors	288	Not rated	336	Not rated
	131,576		127,193	

As at 31 December 2022, trade and other debtors that were past due but not yet impaired was £151,000 (2021: £228,000). No other amounts were past due as at the date of the Statement of Financial Position.

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

The table below shows the sensitivity of the Fund of Future Appropriations ("FFA") to possible changes in the key assumptions. The table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In practice, the assumptions may be interdependent.

Group and Society		2022	2021
Variable	Change in Variable %	Change in FFA £000s	Change in FFA £000s
Insurance risks			
Change in mortality (note 19a(iv))	-20%	(1,815)	(3,268)
Change in morbidity (%CMIR12) (note 19a(v))	+25% inceptions and -20% recoveries	(9,487)	(13,973)
Change in expenses (note 19a(iii))	+10%	(3,039)	(3,581)
Change in lapses (note 19a(vi))	+10%	(4,429)	(5,227)
Change in lapses (note 19a(vi))	-10%	8,386	12,126
Market risks			
Change in fixed interest yields (note 24b(v)(b))	PRA interest rate up	(5,915)	(5,551)
Change in fixed interest yields (note 24b(v)(b))	PRA interest rate down	8,583	1,548
Fall in equity values (note 24b(v)(a))	-10%	(2,056)	(2,436)

Glossary

Annual Premium Equivalent (APE)

An industry standard measure of amount of new premiums written and is equal to 100% of annual 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.

Derivatives

A financial contract whose value is linked to the value of an underlying asset, which for the Society is the value of the UK gilt.

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

The Financial Reporting Standards issued by the UK Accounting Standards Board.

Fund for Future Appropriation, FFA

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

Guaranteed Minimum Pension (GMP)

Guaranteed Minimum Pension is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1999. On 26 October 2018 the High Court ruled in the Lloyds Banking Group ruling that equalisation for the effect of unequal GMP was required for active members at that date. A further judgement was ruled on 20 November 2020 that equalisation for the effect of unequal GMP was also required for members who have previously transferred out.

London Interbank Offered Rate (LIBOR)

The LIBOR was previously the common benchmark interest rate index for short-term loans. The LIBOR was replaced by SONIA from 31 July 2021 in the UK.

ORSA Own Risk and Solvency Assessment

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

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

AA realised gain or loss occurs when an asset is sold and it is the difference between the sale proceeds and the cost of purchasing the asset. The increase or decrease in value since the end of the previous year is presented 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 was a fundamental review of the capital adequacy regime for the European insurance industry. It established a revised set of EU-wide capital requirements and risk management standards with the aim of increasing the financial strength of insurers and thus added 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.

Solvency Capital Requirement (SCR)

The amount of capital that the PRA requires a UK Life insurer to hold, calculated using Solvency II requirements.

Sterling Overnight Index Average (SONIA)

The SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in Britain. SONIA replaced LIBOR from 31 July 2021.

Smoothing

The principle of reducing bonuses to with-profits members in good years to prevent lower bonuses in poor years.

Technical provisions

An actuarial calculation of the amounts needed to meet the expected liabilities to policyholders, taking into account expected premiums on certain types of insurance contracts in force, and after allowing for maintenance costs and an appropriate risk margin.

Three lines of defence approach

A control framework to ensure that the Society is properly controlled through management as the first line, risk and compliance policies and monitoring as the second line and independent audit as the third line.

Valuation methods

Note 19 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

A pooled investment fund where premiums from the with-profits members are added together and invested. The investment return is held in the with-profits fund and paid out to the with-profits members on a smoothed basis over time.

Notes

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