

**PPFM COMPLIANCE FOR THE PERIOD
1st January 2022 to 31st December 2022
- Board report to With-Profits planholders.**

The Board of Management's report to With-Profits planholders for the year 2022

The Shepherds Friendly Society Limited

Registered Office: Haw Bank House, High Street,
Cheadle, Cheshire, SK8 1AL.

1 Introduction

The Society's Principles and Practices of Financial Management ("PPFM") describes how the Society manages its With-Profits business.

The PPFM is available on the Society's website at www.shepherdsfriendly.co.uk/about/ppfm/ or copies may be obtained by writing to The Company Secretary, Shepherds Friendly Society, Haw Bank House, High Street, Cheadle, Cheshire SK8 1AL.

The Society is required to produce a report for With-Profits planholders stating whether, throughout the financial year covered, it believes it has complied with the obligations relating to the PPFM and its reasons for that belief. This report covers the period from 1 January to 31 December 2022.

2 Compliance with the PPFM

The Board of Management confirms that it has complied with its obligations relating to the PPFM throughout 2022. In particular, it confirms that -

- (a) the Board's discretion in the conduct of the Society's With-Profits business has been applied in accordance with the PPFM, and
- (b) any competing or conflicting rights, interests or expectations of the Society's planholders have been addressed through the application of the PPFM

In a reasonable and proportionate manner.

In so doing the Society confirms that it has maintained fairness between different categories of policy and planholders.

In making this declaration we have taken into account:

- (a) advice from our With-Profits Actuary on compliance with the PPFM and discretion exercised throughout the period. A statement from her is attached to this report,
- (b) judgement from our Fair Members Benefit Committee on our compliance with the PPFM throughout the period,
- (c) the Directors' overall assessment of the business,
- (d) the materiality of individual aspects of compliance.

The main reasons for believing we can make this statement are covered below.

3 Governance

The Society is required to maintain governance arrangements designed to ensure that, in the conduct of our With-Profits business, we comply with, maintain and record our PPFM.

The Board of Management takes overall responsibility for the management of the With-Profits Fund and ensuring that compliance with the PPFM is maintained. In doing so, advice is taken from the With-Profits Actuary, particularly on key aspects of the exercise of discretion in management of the fund. Throughout 2022 the With-Profits Actuary has been Cara Spinks, a consulting actuary at OAC plc. The With-Profits Actuary is required to report annually to planholders on the management of the fund and her statement is attached to this report.

All key decisions are reviewed by the Fair Members Benefit Committee who provide comments on compliance with the PPFM and the fairness of treatment of planholders.

4 Reasons for Board's confirmation of compliance with the PPFM

Having taken advice from the With-Profits Actuary and the Fair Members Benefit Committee the Board has reviewed the key provisions of the PPFM. The Board has considered each element of the PPFM and our conclusions on each area are as follows.

Payouts and bonus rates

Payouts made from the With-Profits Fund during the year broadly reflected asset shares, subject to meeting any guaranteed benefits and allowing for smoothing in accordance with the PPFM. The calculation of asset shares has been consistent with the PPFM and no departures from the methodology set out in the PPFM were made during 2022.

All bonuses were set following advice from the With-Profits Actuary.

Annual bonus rates for conventional policies declared for the 31 December 2021 distribution applied on an interim basis throughout 2022. The rates were reviewed in November 2022 and the decision was made to maintain the existing rates for all business. This decision is consistent with the long-term sustainable rates that the With-Profits Actuary believes these policies can support.

The final bonus rates that applied to payouts throughout 2022 were set on the advice of the With-Profits Actuary. When setting final bonus rates, the aim over the longer term is that at least 90% of maturity and surrender payouts will fall within the PPFM's stated target range (80%-120% of asset share).

The With-Profits Actuary has notified us that 89% of all payouts were within range overall for 2022. This is a reduction on the figures for 2021 which showed that 97% of claims overall were within target range.

The main reason for the reduction from 97% to 89% is the increase in the number of contractual maturities during 2022 that had payouts above the upper limit of the target range. This was due to lower investment returns during 2022 than expected when the bonus declarations were made at the start of 2022. Final bonuses have been maintained throughout the year in order to protect the interests of long-standing members leaving the fund at a time of investment market volatility.

The With-Profits Actuary has confirmed that, having reviewed the size of the overpayment overall, she believes there has been no material detriment to the remaining with profit planholders and the Society's principles for smoothing have been broadly met.

We expect that the overpayment will have been partially addressed through the recent bonus declaration for claims over 2023, although it is noted that there is still volatility in investment markets which may impact this assessment. The situation continues to be regularly monitored with regards to final bonuses and market value reductions.

In setting final bonus rates and market value reductions ("MVRs") we have followed the approach set out in the PPFM and have differentiated between classes and generations of policy in a reasonable and proportionate manner.

Investment policy

The overall gross asset mix of the fund at the start and end of 2022 is shown in the table below.

Investment Class	Percentage of Fund at 31st December 2021	Percentage of Fund at 31st December 2022
Equities	25%	21%
Property	0%	0%
Fixed Interest	67%	61%
Cash and other investments	8%	18%
Total	100%	100%

The return on the invested assets over 2022 was -16.9% for the Sustainable ISA/Junior ISA and -5.6% for other products (2021: 6.5% Sustainable ISA/Junior ISA, 6.2% for other products).

The majority of the With-Profits Fund's investments are held in a multi asset fund managed by Royal London. The aim of the fund is to generate growth whilst managing the downside risk. The fund invests in an asset mix including UK and overseas equities, commodities, bonds, money market instruments, deposits and cash, with a blend of active and passive funds and exchange traded funds. This is consistent with PPFM principles.

The Board is satisfied that the Society has abided by the principles and practices set out in the Society's PPFM during 2022 and in a manner consistent with the Society's desire to treat its planholders fairly. However, we will continue to review its PPFM ranges to ensure they are consistent with the current investment climate and the stance of the Board in managing the Society's assets.

Business risk

Risks were monitored regularly during the year.

The Society continues its investment in the growth of its non-profit business. Profits on these initiatives are being paid to With-Profits planholders in the form of increased investment returns credited to members' asset shares.

The Society continually reviews ways in which risks can be managed within the business. The business strategy is one of ensuring the Society has a diversified product base with diversified routes to market. The Society works with key partners to help achieve these objectives.

During 2022 the Society entered into an arrangement with Dead Happy for the sale and distribution of new term life plans. The Society has no financial interest in Dead Happy other than the performance of the new business being generated.

The Society regularly reviews the reinsurance arrangements it has in place on its protection portfolio to ensure the Society manages its business risks within risk appetite.

During 2022 the Society extended its reinsurance arrangements on income protection business so that 50% of the morbidity risk for the first two years of payment on new business is reinsured with GenRe for the Society's long-term income protection business with longer deferred periods.

All of the business written under the Society's arrangement with Dead Happy is 100% reinsured with Pacific Life Re.

Expenses and charges

Expenses continued to be charged to the With-Profits Fund in line with the provisions of the PPFM.

Management of the Society's surplus

The amount of surplus has continued to be monitored and the level remained within the target range set out in the PPFM.

The investment strategy of the surplus has been maintained in line with the fund's overall investment strategy.

The surplus has not been used for any purpose in 2022 other than the enhancement the Directors agreed in November 2021 should be distributed to asset shares in respect of surplus arising on the fund (primarily from non-profit business).

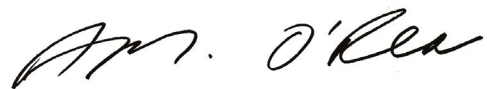
New business

Volumes of new business during 2022 were sufficient to justify the With-Profits Fund staying open to new business according to criteria included in the PPFM.

There have been no changes to the products marketed and sold by the Society during 2022 (other than the arrangement with Dead Happy described above under Business risk).

Changes to the PPFM

No changes to the PPFM were made during the period.

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

Ann-Marie O'Dea

Chief Executive Officer

28th March 2023

With-Profits Actuary's report to With-Profits planholders for the year 2022

As With-Profits Actuary to The Shepherds Friendly Society Limited ('the Society') I am required to report to the With-Profits planholders every year on whether, in my opinion, the With-Profits business of the Society has been managed over the year in a way that takes their interests into account in a reasonable and proportionate manner.

Planholders should not rely solely on the information contained in this report when making financial decisions and this report does not represent financial advice.

I have been With-Profits Actuary to the Society throughout 2022.

I can confirm that, throughout 2022, I have had full access to the Board of the Society to discuss matters relating to With-Profits business.

In preparing this report I have taken account of the rules of the Financial Conduct Authority and the guidance requirements of the Actuarial Profession and the Financial Reporting Council.

In my opinion, the annual report by the Society to its With-Profits planholders, and the discretion exercised by the Society in respect of 2022, may be regarded as having taken the interests of the Society's With-Profits planholders into account in a reasonable and proportionate manner.



Cara Spinks FIA

With-Profits Actuary to the Society
21st March 2023

OAC plc

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