The Shepherds Friendly Society Limited

Annual Report and Financial Statements

31st December 2021

Shepherds Friendly Society Limited

Our Directors and Advisers

Non-Executive Directors
Nemone Wynn-Evans – Board Chair (with effect from 15 October 2021)
Simon Pashby – Senior Independent Director
Joanne Hindle
Cameron Mills
Mark Myers

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
Mazars LLP (replaced by RSM UK Risk Assurance Services LLP from 1 January 2022)

Tax Advisors
PwC LLP

Bankers
Santander UK PLC

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

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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.

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Website: www.shepherdsfriendly.co.uk

STRATEGIC REPORT – Board Chair's Report

Protecting the long-term interests of our members

As I sit down to write my first report as Board Chair, I reflect on a year where uncertainty has continued to impact the lives of our members in many ways. Along with the intermittent disruptions and health concerns caused by new Covid-19 variants, our members are also facing fresh challenges with cost of living and inflationary pressures. And in recent weeks, we are also facing further uncertainty relating to the conflict in Ukraine. The resulting humanitarian crisis and financial disruptions threaten to undermine global economic activity. I would like to reassure our members that the Society's liquidity, solvency and operational capabilities remain resilient, as they have been throughout the Covid-19 pandemic. Our investments are held in funds that actively manage volatility and their broad diversification remains an effective strategy to limit any downside risks when there is so much economic and political uncertainty at home and abroad.

2021 has been another year where the Society continues to innovate and invest into the business to deliver better value for its members. Amongst the accomplishments are the technological enhancements to our member portal, improving how we engage with our members on a day-to-day basis, enhancing the benefits for our income protection policies and the launch of our sustainable savings product range. In addition, the Society has taken great strides towards its goal of becoming more sustainable by working towards a full national environmental accreditation and carbon neutrality.

The Society has delivered growth in its membership and investment returns, despite the disruptions over 2021. I am pleased that in these challenging times, we continue to pay annual bonuses to our with-profits members. This is a good outcome for our members, sustaining years of positive returns for them and highlighting the benefits of our with-profits products.

The success of the Society is a credit to the high level of commitment and dedication of our people. I would like to take this opportunity to thank all my Board Colleagues, the team of Executives and the staff in the Society for their untiring efforts over the last year. Joanne Hindle stepped down as Board Chair at the 2021 AGM following years of invaluable contribution and leadership. I would like to thank Joanne for her devoted service to the Society.

Finally, on behalf of the Society, our thoughts are with our members who have been directly affected by the conflict in Ukraine. The Society, as ever, continues to be here for our members and to support them in the best way we can during these challenging times.

Nemone Wynn-Evans
Board Chair

5th *April 2022*

STRATEGIC REPORT - Chief Executive's Report

2021 business review

I am pleased to report that the Society has met its strategic objectives for the year. The Society continued to deliver growth through new members, and we have maintained our financial resilience. At 31 December 2021, the Society's total assets were £178.5m. Total assets have increased by £22.5m from 31 December 2020. The Society's solvency ratio at 31 December 2021 was 166% (2020: 176%). The reason for the change is primarily a function of higher interest rates at the end of 2021 compared with the prior year and the decision the Society took to invest in the development of the business. This is an excellent outcome given the evolving risk environment that we have seen over 2021 and the prior year.

As highlighted in the Board Chair's report, the Society has accomplished a range of initiatives over 2021 to deliver sustainable value to its members. Operationally, our staff have gradually returned to the office in line with government guidance. The Society has continued to enhance its technological infrastructure to enable the Society to service its members better and help improve the Society's continued operational resilience.

Looking forward

2022 sees the Society embarking on its next three-year business plan, with the aim to *continue enhancing the value we provide to our members. A major element of this plan is* the continuation of our journey towards sustainability and taking the next steps towards becoming a financially, environmentally and socially responsible Society.

We consistently monitor the principal and emerging risks to the Society. We will innovate to improve our financial and operational resilience and invest to ensure the Society has a modern and robust approach to the delivery of our key business services.

Ann-Marie O'Dea
Chief Executive

5th *April 2022*

STRATEGIC REPORT – Financial Performance Report

The Key Performance Indicators ("KPIs") that contributed to the Society's financial performance in 2021 are explained in more detail below.

Premium Income

Gross premium income from new and existing members has increased from £27.1m in 2020 to £31.8m in 2021. *Most of the Society's premium income in 2021 was in the form of regular* premium contributions. This is important because regular premium business tends to stay in force for much longer than single premium lump sums, which in turn increases our financial strength.

Investment Returns

Total Group investment assets held for unit-linked policyholders and with-profit members has increased from £91.3m to £111.1m in 2021. Total investment returns in 2021 were £10.2m which more than offsets the prior year's loss of £4.7m experienced during the first wave of the pandemic.

Expenses and Claims

Total other operating expenses have increased to £11.9m in 2021 from £10.3m in 2020 as the Society continues to invest in its people and technology so it can effectively service its membership base.

The Society's reason for existence is to provide financial protection for its members and policyholders. Total claims incurred, net of reinsurance in 2021 of £14.4m has increased from £11.5m in 2020. Total claims include withdrawal and surrender payments that can fluctuate year-on-year depending on the needs of our members.

Movement on Long-term Business Provision

Total long-term business provision, net of reinsurers' share was £30.4m as at 31 December 2021 and this has increased from £19.7m at the end of the prior year. The movement reflects growth in new members, movement in interest rates in the year and changes in future assumptions used for the valuation of long-term business provisions. The sickness assumption has been strengthened for longer term sickness claims and the expense assumption updated to reflect the Society's projected investment into the business for future years.

Fund for Future Appropriations ("FFA")

The net impact of the above, and after allowing for investment returns allocated to members has resulted in the reduction of the Group's FFA from £20.7m to £18.8m. The reduction was in line with our expectation and allows us to continue to pay benefits to all our members.

STRATEGIC REPORT - Risk Management Report

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

Risk Governance Structure

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

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

The Board is supported by the Board Committees in executing its responsibilities. The role of the Committees in providing oversight of the Society's risks is covered in the Board Committee Reports from page 28.

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

The Executive Operational Risk Committee monitors and reports on the Society's operational risk management for operational resilience, processes reviews, cyber security and the operational aspects of climate change. The Executive Operational Risk Committee also manages a programme of deep dives for specific areas of operational risk concern and oversees the future development and maintenance of the Society's risk management software.

The Member Voice Committee is responsible for assisting and advising the FMBC in exercising its oversight of good member outcomes in the Society as part of an effective conduct risk strategy. The Member Voice Committee will monitor and review the Society's performance with regard to the culture element of the Conduct Risk framework in particular member voice, staff impact on members and external partnerships. The Member Voice Committee is represented by Member Voice Champions from each area of the business who are responsible for strengthening and embedding our conduct risk strategy.

Risk Management Framework

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

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

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

Risk Appetite and Tolerances

Regulations requires the Society to undertake, as part of its Strategic Planning, a forward-looking assessment of own risks and to produce an Own Risk and Solvency Assessment ("ORSA") on an annual basis. It can be produced more frequently if the Society's risk profile has changed materially. One ORSA was produced in 2021.

The ORSA process has established a strong link between business planning, risk assessment and capital management. It ensures that medium term strategic business activities are considered not only in the context of what they may deliver as benefits, but also the degree of risk being taken and how this could adversely impact solvency. This is captured through the setting of the Society's Risk Appetite Statement that is approved by the Board. The Statement explains the level of risk the Society is prepared to accept in pursuit of its strategic objectives and defines the tolerance range for each material risk. The Society, through the Risk Management Framework, seeks to manage its exposures to each risk and ensure the residual risk exposures are within the tolerances set. The Board, through the Risk Governance Structure, oversees the Society's adherence to the Risk Appetite Statement and the risk tolerances.

A summary of the principal risks identified by the Society and that have been included in the 2021 ORSA are set out below.

Summary of principal risks

Financial risks

Risk	Description	Management and mitigation
	Market Risks	
Investment asset risk	Included in this risk is the risk that the value of investment assets held in the Society's investment funds fluctuate significantly outside of expected returns.	The Society holds investments in actively managed funds that are designed to generate sustainable investment returns in the long term. Investment risk volatility is actively managed by fund managers at RLAM, and LGIM actively track appropriate fund indices for the Society's unit-linked funds. The Board has oversight of RLAM and LGIM as key outsourced investment management services providers. Investment performance and emerging experience is monitored by the Board Risk Committee and the Fair Members Benefit Committee
Interest rate risk	This is the risk of higher interest rates and which is starting to emerge because of higher inflation in the current economic environment. Higher interest rates reduce the Society's value of future cash flows on income protection contracts.	The Society maintains a varied product range and any reduction in the value of Income Protection 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 continues to explore opportunities, including the use of financial hedging instruments, to hedge against the impact of interest rate movements.
	Insurance Risks	
Sickness Risk	The Society pays a benefit to policyholders who have income protection contracts. The benefit is payable if they are unable to work due to accident or sickness. There is a risk that sickness claim volumes are higher than expected and recovery rates are lower than expected.	Claims experience is closely managed by Senior Management and monitored by the Board Risk Committee with Board oversight. Reinsurance arrangements help to mitigate sickness risks. During the year, the Society has enhanced its reinsurance arrangements for its protection products from the next financial year. Income protection premiums may be reviewed in line with the terms and conditions of the

Risk	Description	Management and mitigation
		contracts to adjust for adverse claims experience. The Society has enhanced the benefits provided to income protection policyholders to aid recovery from sickness.
Lapse Risk	The value of the Society's Income Protection (IP) business is treated as an asset in its financial statements. This is because future premiums are expected to be more than enough to cover the cost of benefits and expenses associated with those contracts. This means that the value of IP business is exposed to the risk that its lapse experience is different to expectations.	Lapse experience is closely managed by Senior Management and monitored by the Board Risk Committee with Board oversight. Emerging experience is monitored against the Society's risk appetite. A range of management actions can be used to mitigate these risks. Reinsurance arrangements help to mitigate lapse risks, where financing terms are offered. As the sale of protection products is mainly through intermediaries, there is continuous monitoring of intermediaries' performance. The Society seeks to work with intermediaries with the same values as the Society to achieve good member outcomes and to promote member retention.
Expense Risk	This is the risk of excessive costs to acquire new business or maintain existing business causing solvency levels to fall.	Expenses are monitored by management through the monthly budget variance reporting process. This ensures variances are noted at an early stage and remedial actions initiated. The Board monitors expenditure against the budget which it has approved.
	Credit risk	
Credit risk	This is the risk that any of the Society's counterparties default and cause 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 reinsurer, investment management provider and banking provider. Management reviews outstanding balances and agreed repayment from intermediaries on a weekly basis.

Strategic risks

Risk	Description	Management and mitigation
Solvency Risk	This is the risk that the Society's solvency ratio falls below its regulatory Solvency Capital Requirement ("SCR") causing the Society to curtail its business model until financial strength has been restored.	The Society's solvency ratio is closely monitored by the Board. The Board has set out the actions the Society can take to restore its solvency ratio should levels fall below set tolerance levels. The Society produces a forward-looking assessment of its likely future solvency position on a range of scenarios. Based on the assessment, management identifies areas where particular focus is required to protect its *solvency ratio.*
Asset Share Coverage Risk	The Society seeks to cover its with-profits liabilities with the non-unit linked assets held in its Statement of Financial Position.	Asset share coverage is continually monitored, and it is ensured that it is within the Society's risk appetite. Reinsurance financing is in place for the Over 50s business and this arrangement increases the assets held by the Society The Board will continue to monitor the balance of new business sales and acquisition costs to manage this risk.
Conduct Risk	Included in this risk are matters such as reliable internal processes, compliance with current legal and regulatory matters, and good member outcomes. Failures in these areas could result in reputational damage leading to loss of customers, and/or financial penalties.	By ensuring there are detailed policies, processes and procedures documented for operational activities, the Society maintains a low-risk operational environment even when our staff are working remotely. Policies, processes and procedures are monitored by the Executives through the Executive Operational Risk Committee and the Member Voice Committee. Regular monitoring is provided by the Society's Risk, Compliance and Actuarial function. The effectiveness of these controls is monitored by the Fair Members Benefit Committee and the Audit & Compliance Committee, taking into consideration reports from internal audit and ensuring management follows up any recommended corrective actions. The Society conducts a risk assessment of all new products and initiatives and an annual

Risk	Description	Management and mitigation
		review of existing products. The assessment takes into consideration operational, regulatory and conduct risks.
Operational resilience	Included in this risk is the ability for the Society to continue to operate its important business services and to maintain adequate data security. This includes remaining fully responsible for the oversight, management and performance of material outsourced activities. There is a risk that the Society is unable to meet its member obligations following the significant degradation of services received which could result in disruption to our operations or loss of financial assets.	The Society has a governance structure to manage operational crises which enables rapid and effective decision making. The Society is currently progressing towards its compliance with the joint Operational Resilience policy statement issued by the FCA and the PRA. During 2021, as part of the Society's Operational Resilience implementation programme, the Board reviewed and agreed the list of important business services and the third- party systems and services required to deliver them. The Board also set impact tolerance limits for each important service. Before entering into any outsourcing relationships, the Society conducts due diligence on the organisations and the proposition to ensure any risks are fully considered. The Society also has a framework for the governance and oversight of material outsourcer and supplier arrangements that includes the requirement for Board approval prior to commencing any arrangement. The Board Risk Committee, the Audit & Compliance Committee and the Fair Members Benefit Committee are all involved in the oversight of material third party arrangements. The Society conducts a series of updates and simulations annually to enhance the Society's data management and cyber crisis management, taking into consideration our flexible working environment. The Society recognises that cyber threats constantly evolve in sophistication. Therefore, the Society continues to invest in its security systems to ensure the Society remains resilient to cyber threats and other physical threats to business continuity.

Risk	Description	Management and mitigation
New business Risk	The Society seeks to generate new business volumes to grow the business. There is a risk that too little new business results in operational inefficiencies and that too much new business creates operational strain.	The Society maintains a varied product range and varied distribution channels to provide continuous flexibility and adaptability to changing market circumstances. Market activities are monitored to capitalise on opportunities. The Society sets new business targets in line with the strategic plan, and risk appetite and tolerances. The Board monitors new business volumes against its targets.
Covid-19 Risk	While the Society has remained resilient throughout the pandemic, the residual effects of Covid-19 and the UK and global response to it continues to present a range of risks to the Society.	The Society takes a considered approach to minimising and managing the impact of Covid-19 on key areas that are most at risk. These areas include new business sales, investments, insurance exposure, claims and operational resilience. The risks to new business sales, insurance exposure, sickness claims and operational resilience are managed as separately identifiable principal risks and these risks are detailed in the table above. The impact for Covid-19 is taken into consideration when managing these risks. The Board monitors developments and it makes decisions to manage the Society's solvency and liquidity. The Society's lower risk investment strategy will partly mitigate the impact of market fluctuations due to market sentiment. The Society monitors the fund performance closely to ensure it continues to meet its members' needs.

Emerging risks from the conflict between Russia and Ukraine (event after the date of Statement of Financial Position)

The Society is not directly exposed to risks arising from the conflict between Russia and Ukraine because the Society's business is primarily based in the United Kingdom. The crisis does heighten some of the existing risks that the Society currently manages and proactively monitors as part of its strategic objectives. Without mitigating actions, these risks can increase the Society's liabilities for its long term business provisions. These risks are summarised below and the Society's management and mitigation of those risks are addressed in the Summary of Principal Risks above:

a) The investment markets can remain volatile due to disruption to global economic activity;
b) There is a risk of lower consumer confidence and lower consumer affordability due to the impact of the crisis on prices of basic commodities such as food and energy leading to a heightened inflationary environment over 2022. This can increase uncertainty over the volume of new business and lapses on existing policies; and
c) Increased risk of cyber-attacks targeting the UK financial services sector. This can disrupt the Society's operational activities if any attacks penetrate the Society's security systems.

Climate Change

The Society recognises its role as a responsible business to consider the implications of climate change on our members, our operations and our community. Like most health and life insurers, the Society may be impacted by the transitional effects of climate change. Physical risks of climate change are not, at this stage, expected to have a material impact on the Society.

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

Governance

The Board has 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	**Time Horizon**	**Mitigating actions**
Financial losses from claims caused by the physical impact of climate change and the	Medium to long term	Embedded climate change risks in the Society's scenario and stress testing to assess the potential impact on solvency and liquidity.

Risk and opportunities	Time Horizon	Mitigating actions
potential changes to mortality or morbidity.		
Financial losses from investments caused by transitional risks from adjustment to a low-carbon economy or changing market conditions due to climate change.	Short to medium term	Engagement with our investment providers to understand the impact of climate change on their investment approach. We also keep under review our choice of investment providers, with increased focus on climate change considerations.
Diversification of members' product preferences towards more sustainable alternatives.	Short to medium term	Assessment of existing products and policies and consideration of changes to products and policies to meet members' demands. In the year ending 31 December 2021, the Society launched its 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.
Operational failures caused by physical impacts of climate change, for example on essential utilities, business critical supplies and distribution networks.	Medium to long term	Integrate scenarios into the Society's disaster recovery testing.

The key highlights of the Society's overall strategy over the next couple of years include:
- Engaging in initiatives to reduce the Society's carbon footprint;
- Continual assessment of investments and supply chain to shift towards sustainability; and
- Maintaining our Investors in the Environment accreditation.

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

Risk management

As discussed on page 5 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 development of the risk framework, we will develop metrics and targets to assess material financial and social risks that are impacted by climate change. The Society's ultimate target is to be net carbon neutral within the next five years, well ahead of the Paris Agreement's goal of 2050.

The Society has established a 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. In the year, these activities have included focus on the Society's usage of paper, electricity and water.

Over 2021, the Society has reduced its water and paper usage compared to the prior year. Electricity usage experienced a marginal increase due to increased activity in office spaces in 2021 in comparison to prior year which was affected by restrictions caused by the Covid-19 pandemic.

We recognise that we are at the start of our journey to report on utilities usage and we aim to develop normalised targets not affected by the Covid-19 pandemic. There are ongoing initiatives to develop these targets for the Society.

CORPORATE GOVERNANCE - 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 2021

Nemone Wynn-Evans – Board Chair (with effect from 15 October 2021, previously Senior Independent Director) and Chair of Nominations & Governance Committee

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

External appointments: Board Advisor at SORBUS Partners LLP, a private wealth management office, Non-Executive Director of Hinckley & Rugby Building Society, Non-Executive Director of Good Energy Group plc, a renewable energy company where she also chairs the Audit and Risk Committee, and Member of the Commercial Advisory Committee at Coventry University until August 2021.

Ann-Marie O'Dea - Chief Executive

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

External appointments: None

Simon Pashby – Non-Executive Director (Senior Independent Director and Chair of Audit & Compliance 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: Former Council member of the Medical Protection Society, a members' mutual fund which provides indemnity services to the medical profession and Chair of their Audit and Risk Committee until June 2021.

Joanne Hindle – Non-Executive Director (Chair of Remuneration & Engagement Committee)

Experience: Having trained as a lawyer, Joanne joined the financial services industry in 1986 and has held a variety of roles. These include being Pensions Development Director for NatWest Life, Corporate Services Director for UNUM, Chair of the trade body ILAG and Chairman of the Board of the Holmesdale Building Society.

External appointments: Non-Executive Director for the Bank of London and Middle East and Chair of their Nomination and Remuneration committee and Chairman of the Board of Stafford Railway Building Society.

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 30 years not only in the UK but also in Europe and Asia. Prior to retirement, Cameron was the Chief Actuary for a mutual insurance company and before that he has held roles in risk, compliance, marketing and sales.

External appointments: None

Mark Myers – Non-Executive Director (Chair of Board Risk Committee)

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

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

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

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.

<u>Board Attendance in 2021</u>

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

	Jan	Feb	Mar	Apr[1]	**May**	Jun	Sep	**Oct**	Nov
	BM	BM	BM	BM	**SD**	BM	BM	**SD**	BM
Nemone Wynn-Evans – Board Chair	√	√	√	√	**√**	√	√	**√**	√
Joanne Hindle - NED	√	√	√	√	**√**	√	√	**√**	√
Simon Pashby - NED	√	√	√	√	**√**	√	√	**√**	√
Cameron Mills - NED	√	√	√	√	**√**	√	√	**√**	√
Mark Myers - NED	√	√	√	√	**√**	√	√	**√**	√
Ann-Marie O'Dea - CEO	√	√	√	√	**√**	√	√	**√**	√
Christopher Critchlow - Executive Director	√	√	√	√	**√**	√	√	**√**	√

	Jan	Feb	Mar	Apr[1]	**May**	Jun	Sep	**Oct**	Nov
Nasrin Hossain - Executive Director	√	√	√	√	**√**	√	√	**√**	√
Samuel Chivers - Executive Director	√	√	√	√	**√**	√	√	**√**	√
Tim Robertson - Company Secretary	√	√	√	√	**√**	√	√	**√**	√

(BM – Board meeting / ***SD – Strategy days****)*

[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 2020

Other update meetings were held during the year to discuss strategic matters. The meetings also facilitated approval for key decisions arising over the course of the year and which required a majority of non-executive directors to attend.

CORPORATE GOVERNANCE - Directors' Report

Directors and Interests

Details of the current members of the Board are given on pages 15 to 17. Information on how they have governed and managed the affairs of the Society and its subsidiaries in the year is given in the Corporate Governance Report on pages 24 to 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 has ceased active trading in the year. 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. A summary of the financial results for the year together with the KPIs and future development are contained in the Chief Executive Report on page 3 and the Financial Performance Report on page 4.

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 5 to 14. Note 5 to the financial statements also provides details about the Group's financial risk management and controls.

The effectiveness of the Society's internal policies, systems and controls are monitored at multiple levels. The primary responsibility lies with the senior management team and all staff 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 31.

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

Employees and Engagement with Employees

The Society's culture and ethos is to have a flexible work environment that promotes the acceptance of a range of perspectives, ideas and talents. We believe that everyone benefits when we embrace and value diversity of thought, ideas and ways of working as well as helping us to more effectively understand and meet the needs of our diverse membership. During the year, the remit of the Remuneration Committee was extended to include oversight of how the Society's remuneration policy and practices affect the Society's engagement with its employees.

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

Donations

The Society 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 £2,500 (2020: £1,500) to charities during the year. No political donations were made during the year (2020: £nil).

Events after the date of Statement of Financial Position

The Directors assessment of the risks emerging from the evolving crisis in Ukraine is detailed in the Risk Management Report on page 11 and note 25 of the financial statements.

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 2);
- The analysis of material risks faced by the Group and the management of those risks (see details in the Risk Management Report from pages 5 to 14);
- 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 2021 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);
- The remaining impact caused by Covid-19 on our forecast solvency and liquidity and the Society's resilience throughout the peak of the pandemic; and
- The actions management can take to manage the potential risks arising from emerging geopolitical uncertainty 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 2024. The scenarios included significantly unfavourable variations in the levels of new business, underlying economic assumptions, and policy lapses and claims compared to those expected. These variations took into consideration remaining uncertainties due to Covid-19 and climate change as an emerging risk.

Based on these assessments and noting the remaining uncertainties in relation to Covid-19, and heightened geopolitical tensions, 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 2024. While the period of assessment is three years, the ORSA indicated a viability over a longer period.

<u>Statement of Responsibilities of the Board of Directors</u>

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 2 to 14), the Report on Corporate Governance (please see Pages 24 to 37) and the Financial Statements (please see pages 47 to 65), 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.

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 2021 Annual General Meeting. BDO LLP is permitted to serve as auditors a further eight years, subject to annual approval by members. BDO LLP have expressed their willingness to continue in office. A resolution to re-appoint BDO LLP will be proposed at the next Annual General Meeting.

T Robertson
Company Secretary

5th *April 2022*

CORPORATE GOVERNANCE - 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.

Principle		Applied	How the principle has been applied
1	**Purpose and Leadership:** An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.	✓	• 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.
2	**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.	✓	• The Society's Board composition is on pages 16 to 18. • The composition and profiles highlight: a) the skills and experience that each Board member brings; b) diversity in line with the Board Diversity Policy; and c) division of responsibility between the Board Chair, the Chief Executive Officer, Executive Directors and Independent Non-Executive Directors in accordance with the Board Manual.

	Principle	Applied	How the principle has been applied
			• The Board Chair's and the non-executive directors' performances and independence are appraised on at least an annual basis by the Nominations & Governance Committee. • All non-executive directors present themselves for annual re-election by the Society's members at the Annual General Meeting ("AGM"). • The Board plans to conduct a Board effectiveness review in the coming year to capture the changes made to the Board in 2021 onwards.
3	**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.	✓	• The Board Manual details the Society's overall governance arrangements, decision-making processes and directs the conduct of the Board. • 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 37. • 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.
4	**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.	✓	• 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

	Principle	Applied	How the principle has been applied
			Board through the annual ORSA process. The principal risks and uncertainties are disclosed in the Risk Management Report on pages 5 to 14. • The Board Risk Committee ensures the establishment, development and maintenance of an effective and well-integrated 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.
5	**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.	✓	• 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.
6	**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.	✓	• The Society cultivates its relationships with members through a varied programme which maintains contact with them and enables them to pass on their views about the Society. These methods are a mixture of face to face, telephone, written and internet contact. • 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

Principle		Applied	How the principle has been applied
			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 20. • 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.

CORPORATE GOVERNANCE - 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 & Compliance Committee	Simon Pashby
Board Risk Committee	Mark Myers
Fair Members Benefit Committee	Cameron Mills
Nominations & Governance Committee	Nemone Wynn-Evans
Remuneration & Engagement Committee	Joanne Hindle

A summary is given below of the most significant governance work conducted by these Committees throughout 2021.

Audit & Compliance Committee

Key Responsibilities

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

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

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

Committee Membership

The qualifications of each member of the Committee are included in their biographies on pages 15 to 17. The Board is satisfied that the Chair, Simon Pashby has competence in accounting and auditing.

There were six meetings in the year as follows:–

	9 Feb	16 Mar	16 June	13 Sept	10 Nov	23 Dec
S Pashby (Chair and non-executive director)	✓	✓	✓	✓	✓	✓
N Wynn-Evans (non-executive director)	✓	✓	✓	n/a	n/a	n/a

	9 Feb	16 Mar	16 June	13 Sept	10 Nov	23 Dec
J Hindle (non-executive director)	n/a	n/a	n/a	✓	✓	✓
M Myers (non-executive director)	n/a	n/a	n/a	✓	✓	✓

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

Significant matters considered by the Committee in 2021

2020 Annual Report and Financial Statements

The table below highlights the significant matters in relation to the 2020 financial statements considered by the Committee during the year and how they were addressed.

Significant matters considered	**How the matter was addressed by the Committee**
Going concern assessment and disclosures arising from the impact of Covid-19	The Committee reviewed the going concern assessment produced by management. The assessment covered an 18 month period to 30 June 2022 and the stressed scenarios, taking into consideration the remaining uncertainties of Covid-19, provided a view that the Society would remain solvent and liquid over that period. The Committee assessed the assumptions and stresses applied to projections and it was satisfied that the going concern assumption was appropriate for the 2020 financial statements.
Technical provision valuations methods and assumptions for the 2020 Annual Report and Financial Statements	As it is a significant risk area, the Committee received papers from the Chief Actuary detailing the technical provision valuations as at 31 December 2020. The Committee considered the reliability and accuracy of the valuation results, and its underlying assumptions and data. The Committee was satisfied that the valuations were appropriate having also considered the views of the external auditors.
Valuation of non-listed investment assets for the 2020 Annual Report and Financial Statements	The Committee considered the valuation of non-listed investments, in particular the investment in unquoted equities and the investment property held by the Group. The Committee concluded that the valuations were reasonable having reviewed the valuations including additional disclosures, and having regard to the external auditor's independent assurance of the valuation assumptions.
Approval of the 2020 Annual Report and Financial Statements	In March 2021, the Committee reviewed and approved the 2020 Annual Report and Financial Statements for the Group and the Society. This included reviewing key accounting judgements and assessing the appropriateness of the going

Significant matters considered	How the matter was addressed by the Committee
	concern assumption. The Committee ensured the annual report and financial statements were fair, balanced and understandable before recommending them to the Board for approval. In September 2021, the Committee also reviewed and approved the 2020 financial statements for the Society's subsidiaries, Financial Advice Network Limited and Financial Advice Website Limited.

External Audit

For the financial year ended 31 December 2021, BDO LLP were re-appointed as external auditors at the Society's AGM in June 2021. The Committee monitors the independence and objectivity of the external auditors, including BDO's partner rotation plans. The Committee reviewed and updated the policy for non-audit services in line with the revised FRC Ethical Standard 2019 and agreed that any engagement for non-audit services requires pre-approval of the Committee to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In 2021, the external auditors did not provide non-audit services.

Internal Audit

The Committee considered regular reports from Internal Audit on the effectiveness of the Group's control environment and the Committee was provided with assurance over the effectiveness of internal controls.

During the year, the Committee invited a number of audit firms to tender for the internal audit services after Mazars LLP had completed their three-year internal audit cycle. Through the rigorous and thorough selection process, the Committee recommended to the Board that RSM UK Risk Assurance Services LLP is appointed as internal auditors, replacing Mazars LLP, as at 1 January 2022.

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 2021:-

1. Reviewed the 2020 Annual Money Laundering Reporting Officer's Report for the Society and its trading subsidiary; and
2. Reviewed the 2020 Corporation Tax computations for the Society and its subsidiaries.

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:–

	9 Feb	16 Mar	16 Jun	13 Sept	10 Nov
M Myers (Chair and non-executive director)	✓	✓	✓	✓	✓
S Pashby (non-executive director)	✓	✓	✓	✓	✓
C Mills (non-executive director)	✓	✓	✓	✓	✓

Significant matters considered by the Committee

During 2021, the Committee:-

1. Provided close focus and facilitated Board discussions on Covid-19 related risks, other principal risks and emerging risks, and their prevailing pressures on solvency, asset share coverage and cost of guarantees;
2. Continued the evolution of the risk information received by the Committee and the Board to enable effective oversight of the Society's risks and the Committee's ability to understand and manage risks that are related to Covid-19 and that are not related to Covid-19;
3. Played an active role in challenging and helping to shape the 2021 ORSA and Financial Condition Report with recommendation of approval to the Board having considered updates to principal risks and emerging risks, and management actions to manage the impact of those risks on the Society;
4. Reviewed the specific risk sections of the 2020 SFCR and Annual Report to ensure the quality and content are consistent with the ORSA and the reports reflected the risks that have crystallised because of Covid-19. The Committee recommended Board approval after amendments were made as requested by the Committee; and
5. Considered the appropriateness of the Standard Formula used for the 2020 Solvency II actuarial valuations.

Fair Members Bencfit 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 four meetings in the year as follows:–

	15 Mar	15 Jun	14 Sep	9 Nov
C Mills (Chair and non-executive director)	✓	✓	✓	✓
M Myers (non-executive director)	✓	✓	✓	✓
J Hindle (non-executive director)	✓	✓	✓	✓
N Hossain (executive director)	✓	✓	✓	✓

Significant matters considered by the Committee

Significant items considered during 2021:-

1. Reviewed the With-Profits Actuary reports on PPFM compliance and the exercise of discretion in 2020;
2. Reviewed the With-Profits Actuary report and Board report to with-profits policyholders;
3. Considered and recommended to the Board the bonus rates in respect of 2020 for "Holloway" plans;
4. Reviewed the 2021 Financial Condition Report;
5. Oversaw a review of the Society's existing Junior ISA, Income Protection, Young Saver, Junior Moneymaker and Fixed Rate Bond products and product literature; and
6. Considered and recommended to the Board the bonus rates for with-profit policyholders in respect of 2021.

Nominations and Governance Committee

Key Responsibilities

The Nominations & 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 five meetings in the year as follows:-

	15 Jan	1 Jun	7 July	14 Sept	11 Nov
N Wynn-Evans (Chair of the committee from 7 July and non-executive director)	n/a	n/a	✓	✓	✓
J Hindle (Chair of the committee until 7 July and non-executive director)	✓	✓	✓	✓	✓
C Mills (non-executive director)	n/a	n/a	✓	✓	✓
M Myers (non-executive director)	✓	✓	n/a	n/a	n/a
S Pashby (non-executive director)	✓	✓	n/a	n/a	n/a

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

Significant matters considered by the Committee

Significant items considered during 2021:-

1. Reviewed the 2020 CPD records for the Board and agreed the approach for 2021;
2. Reviewed the CPD records and Fit and Proper Assessments of all SMF function holders, and the appropriateness of management responsibilities map;
3. Reviewed progress on the Society's climate change strategy;
4. Reviewed and approved changes to the Board Diversity Policy; and
5. Review of the effectiveness of operational and organisational structures in supporting strategic business objectives and talent management; and
6. Delivered the changes to roles within the Board and committee and the regulatory approvals required.

Remuneration & Engagement Committee

Key Responsibilities

The Remuneration & 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. In 2021, the Committee extended its remit to include 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 -

	14 Jan	7 Jul	14 Sept	9 Nov
J Hindle (Chair of committee from 1 July 2021 and non-executive director)	✓	✓	✓	✓
M Myers (Chair of committee until 1 July 2021 and non-executive director)	✓	n/a	n/a	n/a
S Pashby (non-executive director)	✓	✓	✓	✓
N Wynn-Evans (non-executive director)	n/a	✓	✓	✓

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

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 2021. The details of the remuneration for the directors in 2021 are set out in the Directors' Remuneration Report on pages 35 to 37.

Gender Pay Gap

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

The Society is part of the Women in Finance Charter and this demonstrates the Society's commitment to gender diversity throughout the organisation. The median pay gap for the Society is lower than the industry average. The Society will continue to develop individuals to progress their careers and it remains committed to remunerate individuals based on experience and qualification.

CORPORATE GOVERNANCE - Directors' Remuneration Report

The Remuneration & 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.

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

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

Executive Directors' Remuneration

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

- Salary
  The salary level is set commensurate with that of similar sized businesses in our sector, and to reflect the skills and experience of the individual. The salary is competitively pitched based on an annual benchmarking exercise.

- Performance Bonus
  The Executive Directors can earn an annual bonus following the successful achievement of performance targets that are set to ensure the strategic objectives of the Society are achieved. Targets are quantifiable measures linked to financial, corporate, governance and culture related objectives. The bonus has a maximum

potential of 30% of basic salary. The Committee can also award discretionary amounts for exceptional contribution. 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.

Board Remuneration 2021

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 2021 £	Total 2020 £
EXECUTIVES						
A M O'Dea	216,421	64,926	28,247	1,758	**311,352**	**308,025**
N Hossain	108,774	32,632	9,269	1,533	**152,208**	**152,260**
S Chivers[4]	113,760	40,000	9,729	854	**164,343**	**156,770**
C Critchlow	141,400	42,420	13,393	4,665	**201,878**	**204,390**
	580,355	**179,978**	**60,638**	**8,810**	**829,781**	**821,445**

Name	Basic pay £	Bonus £	Pension supplement £	Other Benefits[3] £	Total 2021 £	Total 2020 £
NON-EXECUTIVES						
N Wynn-Evans[1]	43,673	-	-	841	**44,514**	**35,042**
J Hindle[2]	41,006	-	-	595	**41,601**	**53,469**
S Pashby	31,881	-	-	543	**32,424**	**28,926**
C Mills	29,215	-	-	177	**29,392**	**29,135**
M Myers	29,215	-	-	1,128	**30,343**	**30,106**
	174,990	**-**	**-**	**3,284**	**178,274**	**176,678**
TOTAL	**755,345**	**179,978**	**60,638**	**12,094**	**1,008,055**	**998,123**

[1] Appointed as Board Chair on 15 October 2021.

[2] Served as Chairman of the board until 30 June 2021 before being appointed as Remuneration & Engagement Committee Chair.

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

[4] Includes £5,872 exceptional discretionary bonus.

Joanne Hindle
Remuneration & Engagement Committee Chair

5th April 2022

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 2021 and of the Group's and 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 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 2021 which comprise the statement of comprehensive income, the statement 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 & Compliance Committee.

Independence

Following recommendation of the Audit & Compliance Committee, we were appointed by the members on 21 September 2010 to audit the financial statements for the year ended 31 December 2010, and reappointed to audit subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of firms within the network is 12 years, covering the years ended 31 December 2010 to 31 December 2021.

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.

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:

- Review and challenge of the Group's current plans and budgets, challenging growth assertions and checking that movements were in line with justifiable assumptions and movements. The 2022 budget was assessed against the audited 2021 results, including our general commercial and sector experience;
- Reviewing the basis of solvency projections for the next 12 months and checking that an appropriate mechanism for calculating solvency had been applied; and
- Reviewing the latest Own Risk and Solvency Assessment provided by the Society, checking that stress testing was performed and reviewed the results of the stress testing. We noted that these have been documented in the Own Risk and Solvency Assessment and the Society is in a capital surplus. 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.

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

<table>
<tr><td>Coverage[1]</td><td colspan="3">• 100% (2020 – 100%) of Group technical provisions
• 100% (2020 – 100%) of Group fund for future appropriations
• 98% (2020 – 98%) of Group total assets</td></tr>
<tr><td rowspan="3">Key audit matters ("KAM")</td><td></td><td>2021</td><td>2020</td></tr>
<tr><td>KAM 1</td><td>Valuation of technical provisions</td><td>Valuation of technical provisions</td></tr>
<tr><td>KAM 2</td><td>Investment valuation</td><td>Investment valuation</td></tr>
<tr><td>Materiality</td><td colspan="3">Group financial statements as a whole
£564,000 (2020: £400,000) based on 3% (2020: 2%) of the fund for future appropriations.</td></tr>
</table>

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

An overview of the scope of our audit

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

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

The audit of the Group financial statements includes the audit of the Society. For group reporting purposes, the subsidiaries (Financial Advice Network Limited and Financial Advice Website Limited) are considered immaterial and hence there was only one significant component being the Society itself. The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risk of the Society when determining the level of work to be performed.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of Key Audit Matter		Procedures performed to address this risk
Valuation of technical provisions **The Group financial statements include a net technical provision of £93.2 million (2020: £72.5 million), which represents the estimated costs of settling benefits and claims associated with mainly income protection products. This is set out in further detail in Note 2(p) and Note 21.**	We have assessed this area as being of significant risk to the audit and hence a key audit matter due to the significance of these amounts in deriving the Group's results and because of the degree of assumptions and estimation underpinning the projection, which can be highly subjective.	In assessing the valuation of the technical provisions, we performed the following procedures: • We obtained the Society's actuarial report and agreed the technical provisions and key disclosures in that report to the financial statements. • We engaged an independent external actuary to report to us on the methodology and assumptions that underpin the calculation of the provision and also verified that processes were in accordance with Technical Actuarial Standards (TAS). • We engaged our external actuarial expert to review and assess changes in the assumptions used in the technical provisions and to check these are reasonable and in line with acceptable parameters. • We agreed a sample of the policy data provided to the actuaries to underlying policy data held on the Society's administration system to check that the calculations are based on accurate underlying information.

Description of Key Audit Matter		Procedures performed to address this risk
		• We agreed, as part of the new business control test, that application details agreed to the members system, checking that the underlying policy data is accurately recorded. Key observations: • As a result of the procedures performed, we consider the assumptions and methodology used as at 31 December 2021 to calculate the technical provisions to be reasonable.
Investment valuation As at 31 December 2021 the Group and Society recognised £111.1m (2020: £91.3m) of investment holdings at fair value (excluding subsidiary investments) comprising: **a) Land and buildings of £nil (2020: £1.1m)** **b) Other financial investments of £111.1m (2020: £91.3m) of which £39.6m (2020: £34.2m) is held to cover linked liabilities.** **c) Investment in unquoted equities of £nil (2020: £nil) which were fully impaired in the prior year. This is set out in further detail in Note 2(j), 2(k) and Note 16**	We have assessed this area as being of significant risk to the audit and hence a key audit matter due to the significance of these amounts in deriving the Group's results and because of the degree of estimation underpinning the valuation of the investments at the year-end. In addition, the investment in unquoted equities together with the land and buildings were disposed of during the year. We assessed these transactions to be of significant risk to the audit and hence a key audit matter due to the risk of material misstatement arising from incorrect accounting and disclosure of the disposals.	In assessing the valuation of the investments, together with the disposal of land and buildings and the investment in unquoted equities, we performed the following procedures: **a) Land and buildings** • We reviewed the terms of the signed agreement for the sale of the property and checked that the transaction amount recorded by management agrees to the signed agreement. • We agreed sale proceeds to the bank statement. • We reviewed the disclosures made in the financial statements in relation to the disposal and checked that they are in line with the requirements of FRS 102. **b) Other financial investments** • We obtained a detailed analysis of the Society's share of pooled investments on a look through basis under solvency reporting. This analysis supports the aggregated pooled fund values disclosed in the accounts and enables us to test the valuation of the individual underlying investments. • We obtained direct confirmation of investments held from the asset manager. • We compared a sample of the market value of investments to third party information. • We reconciled the movement in valuation during the year including as a result of portfolio changes and tested a sample of additions and disposals, including gains on realisation, to third party market prices and ultimate receipts. **c) Investment in unquoted equities** • We reviewed the terms of the signed agreement for the sale of the investment and checked that the transaction had been recorded at the correct amount. • We agreed sale proceeds to the bank statement. • We reviewed the disclosures made in the financial statements in relation to the disposal and checked that they are in line with the requirements of FRS 102. Key observations:

Description of Key Audit Matter	Procedures performed to address this risk
	• Based on the work undertaken, we consider the judgements made by management in determining the valuation of investments to be reasonable. • The disposals have been accounted for and disclosed appropriately in the financial statements.

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**	
	2021 £ 000's	2020 £ 000's	2021 £ 000's	2020 £000's
Materiality	564	400	564	380
Basis for determining materiality	3% (2020: 2%) of fund for future appropriations. We consider this to be the most relevant benchmark, as it reflects a key measure of the performance of a mutual friendly society and is used to assess the level of free reserves and in determining solvency.		3% of fund for future appropriations (2020: 95% of group materiality). We consider this to be the most relevant benchmark, as it reflects a key measure of the performance of a mutual friendly society and is used to assess the level of free reserves and in determining solvency.	
Performance materiality	423	300	423	285
Basis for determining performance materiality	75% of Materiality	75% of Materiality	75% of Materiality	75% of Materiality
	We selected 75% as this was reflective of our perceived risk of the financial statements containing misstatements, considering previous experience of this audit engagement.			

Reporting threshold

We agreed with the Audit and Compliance Committee that we would report to them any misstatements in excess of our reporting threshold. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds. We have determined the reporting threshold to be £11,000 (2020: £8,000).

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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Friendly Societies Act 1992 reporting

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

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Society and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the 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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- agreement of the financial statement disclosures to underlying supporting documentation;
- our responses to significant audit risks (including technical provisions, as described in the KAM above, and management override of controls) are intended to sufficiently address the risk of fraudulent manipulation. In particular we engaged an independent external actuary as auditor's expert to review the assumptions and methodology applied by the Society in the valuation of long term business provisions to check the methods utilised were appropriate;
- we addressed the risk of management override of controls, including testing journals and evaluating whether there was evidence of bias by the Directors that might reasonably represent a risk of material misstatement due to fraud;
- enquiries of management as to whether they have knowledge of any actual, suspected or alleged fraud and non-compliance with laws and regulations;

- we communicated identified laws and regulations to the audit team and remained alert to any indications of non-compliance throughout the audit;
- we communicated identified risks of fraud to our team and remained alert to any indications of fraud throughout the audit;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the legal and regulatory framework applicable to the Society's operations;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- legal and regulatory frameworks determined most significant are: 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 AFM Corporate Governance Code;
- review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA); and
- review of the Society's Own Risk and Solvency Assessment.

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.

DocuSigned by:
Alex Barnes 06 April 2022
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Alexander Barnes, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London, UK
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 2021

		Group		Society	
		2021	2020	2021	2020
Technical Account: Long Term Business	Notes	£'000	£'000	£'000	£'000
INCOME					
Earned Premiums, net of reinsurance					
Gross Premiums written	7	31,760	27,121	31,760	27,121
Outward Reinsurance premiums		(1,513)	(1,065)	(1,513)	(1,065)
Net Premiums		**30,247**	**26,056**	**30,247**	**26,056**
Investment Income					
Land and Buildings	8	-	84	-	84
Other Investments	8	3	-	403	39
Losses on the realisation of Investments	8	(1,592)	(83)	(1,592)	(83)
Unrealised gains/(losses) on Investments	8	11,832	(4,667)	11,832	(4,667)
		10,243	**(4,666)**	**10,643**	**(4,627)**
Other technical income	2(h), 9	**153**	**258**	**111**	**-**
Total technical income		**40,643**	**21,648**	**41,001**	**21,429**
EXPENDITURE					
Claims incurred, net of reinsurance					
Claims paid	21(a)	14,172	11,394	14,172	11,394
Change in the provision for claims	21(a)	215	104	215	104
		14,387	**11,498**	**14,387**	**11,498**
Changes in technical provisions, net of reinsurance					
Movement on long-term business provision net of reinsurance	21(a)	10,687	(512)	10,687	(512)
Movement on provision for Linked Liabilities Investment Contracts	21(b)	5,337	(4,239)	5,337	(4,239)
Movement on other technical provisions	21(c)	433	340	433	340
		16,457	**(4,411)**	**16,457**	**(4,411)**
Net operating expenses					
Other operating expenses	10	11,873	10,290	11,873	10,290
Investment expenses and charges	12	165	112	816	112
		12,038	**10,402**	**12,689**	**10,402**
Other technical charges	2(h), 13	**130**	**322**	**-**	**-**
Tax on other technical net income	15	**-**	**15**	-	**-**
Total technical expenditure		**43,012**	**17,826**	**43,533**	**17,489**
(Deficit)/Excess of income over expenditure		(2,369)	3,822	(2,532)	3,940
Transfer from/(to) Fund for Future Appropriations	20	2,369	(3,822)	2,532	(3,940)
Balance on technical account - long term business		-	-	-	-
Other comprehensive income:					
Items that will not be reclassified to technical account					
Actuarial gain/(loss) on pension scheme	24	430	(292)	430	(292)
Transfer (to)/from Fund for Future Appropriations	20	(430)	292	(430)	292
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 48 to 63 form part of these financial statements.

Statement of Financial Position as at 31 December 2021

		Group		Society	
		2021	**2020**	**2021**	**2020**
	Notes	£'000	£'000	£'000	£'000
ASSETS					
Investments					
Land and buildings	16(a)	-	1,112	-	1,112
Investment in Subsidiaries	16(c)	-	-	-	500
Other Financial Investments at fair value	16(b)	71,463	55,994	71,463	55,994
		71,463	57,106	71,463	57,606
Assets held to cover linked liabilities	16(b)	39,587	34,222	39,587	34,222
		111,050	**91,328**	**111,050**	**91,828**
Debtors: amounts receivable within one year					
Debtors arising out of direct insurance operations	17	21	15	21	15
Debtors arising out of reinsurance operations	17	66	27	66	27
Other Debtors	17	315	621	315	731
		402	**663**	**402**	**773**
Other Assets					
Tangible assets	18	367	392	367	392
Intangible assets	19	576	525	576	525
Cash at bank and in hand		2,237	2,971	2,229	2,457
		3,180	**3,888**	**3,172**	**3,374**
Prepayments and accrued income		**346**	**288**	**303**	**240**
Long Term Business Provision for protection benefit	21(a)	**48,378**	**47,365**	**48,378**	**47,365**
Reinsurers' share of technical provisions	21(a)	**15,165**	**12,467**	**15,165**	**12,467**
TOTAL ASSETS		**178,521**	**155,999**	**178,470**	**156,047**
LIABILITIES					
Fund for Future appropriations	20	**18,787**	***20,726***	**18,736**	**20,838**
Technical Provisions					
Long Term Business Provision for benefits excluding protection	21(a)	93,931	79,533	93,931	79,533
Technical Provision for Linked Liabilities - Investment Contracts	21(b)	39,587	34,222	39,587	34,222
Other technical provisions	21(c)	21,773	17,323	21,773	17,323
Claims outstanding	21(d)	1,485	1,270	1,485	1,270
		156,776	**132,348**	**156,776**	**132,348**
Creditors					
Creditors arising out of direct insurance operations		133	51	133	51
Other creditors, including taxation and social security	22	1,104	927	1,103	879
		1,237	**978**	**1,236**	**930**
Accruals		**1,351**	**1,143**	**1,352**	**1,127**
Pension scheme liability	24	**370**	**804**	**370**	**804**
TOTAL LIABILITIES		**178,521**	**155,999**	**178,470**	**156,047**

The attached notes on pages 48 to 63 form part of these financial statements.

The financial statements on pages 46 to 63 have been approved by the Board on 5th April 2022.

N Wynn-Evans
Board Chair

A M 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 page 19.

2 Significant Accounting Policies

(a) Basis of Preparation

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

The 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 investment land and buildings and financial instruments. In accordance with FRS 103 Insurance Contracts, the Group and the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the accounting policies selected for use by the Group and the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

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

(b) Going Concern accounting policy

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.

(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 trading subsidiary, Financial Advice Network, are included with Other Technical Income and Other Technical Charges. The net results are included in the Fund for Future Appropriations for the Group. Intragroup balances, transactions and unrealised gains and losses on intragroup transactions are eliminated in full.

(d) Contract Classification

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

2 Significant Accounting Policies (continued)

(d) Contract Classification (continued)

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 6 have been classified as "participating investment contracts". The unit-linked products and fixed rate bond are classified as "non-participating investment contracts".

(e) Earned Premiums

Insurance Contracts and Participating Investment Contracts

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

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

(f) Investment Income and Expenses

Investment income includes dividends, interest, rents, and realised and unrealised gains or losses on investments. They are all included on an accruals basis except for realised gains and losses, which are included as the difference between the net sale proceeds and the original cost of purchase. Unrealised gains and losses are calculated as the difference between the valuation of the investments at the Statement of Financial Position date and the valuation at the last Statement of Financial Position date or the cost of purchase, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

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

(g) Claims and Benefits

Insurance Contracts and Participating Investment Contracts

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

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

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for expected value of recoveries. However it is likely that the final outcome will prove to be different from the original liability established.

Provisions are adjusted at the Statement of Financial Position date to represent an estimate of the expected outcome.

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

(h) Other Technical Income and Other Technical Charges

Other technical income and charges in the Group refers to income and expenditure incurred by Financial Advice Network, primarily commission income and the cost of administering the network of appointed representatives, and fee income where the Society acts as an introducer to certain third-party providers.

(i) Taxation

The Board has considered its attitude to taxation and the strategies in place in this respect.

As a Friendly Society, the Society is not subject to corporation tax on any surplus it generates for its members. The Society is though subject to policyholder tax on the net investment return generated on part of its life and endowment business, which is levied at the income tax rate of 20%.

Taxes are provided for in respect of the taxable element in the Group's business at tax rates enacted or substantively enacted at the date of the Statement of Financial Position.

(j) Investment Land and Buildings

Investment land and buildings, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of the investment land and buildings are included in the Technical Account for the period in which they arise.

An external independent valuer, having appropriate recognised professional qualifications and current experience of the location and type of property being valued, conducts a full valuation of the Group's investment land and buildings every 3-5 years. Fair values are based on market values. Market values are the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing. Where current prices cannot be established by reference to an active market, valuations are prepared by considering the aggregate of the estimated net cash flows to be received from renting the property. A yield that recognises the specific risks inherent in the net cash flows is then applied to the net annual rental cash flows to determine the value.

When a full valuation has not been conducted or market value has not been established in an arm's length transaction, a desktop valuation or the offer price in an arms' length transaction is used to determine the fair value.

2 Significant Accounting Policies (continued)

(k) Financial Investments

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

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

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

(l) Investment in Subsidiaries

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

(m) Tangible and Intangible Assets

Tangible and Intangible assets are capitalised and depreciated/amortised by equal annual installments over their estimated useful life. The principal rates used for this purpose are as follows:

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

(n) Impairment of Assets

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

(o) Cash and Cash Equivalents

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

(p) Technical Provision

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

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

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

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

(q) Reinsurance

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

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

2 Significant Accounting Policies (continued)

(r) Pensions

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

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

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

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

(s) Fund for Future Appropriations

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

(t) Leases

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

(u) Foreign Currencies

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

3 Critical Accounting Judgements and Estimates

(a) Judgements

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

(i) Contract classification

The classification of contracts on initial recognition requires an assessment of whether significant insurance risk has been transferred to the Group.The assessment is based on the amount payable when the insured event occurs and whether the amount payable is significantly more than when the insured event has not occurred. Based on our assessment, products listed in Note 6 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 Investment Land and Buildings

The investment land and buildings valuation contains a number of market standard assumptions upon which an independent, professionally qualified valuer or purchaser has based their valuation of the Group's property. The property was disposed of during the year ended 31 December 2021.

(ii) Valuation of Group's financial assets and liabilities

The fair value measurement could include non-market assumptions in respect of level 3 assets and liabilities. Note 16(d) explains the assumptions used in the valuation of Level 3 assets.

(iii) Valuation of intangible assets

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

(iv) Long term business provisions

The valuation of participating contract liabilities and insurance liabilities are based upon assumptions and methodology that reflect the best estimate at the time. Note 6 sets out the assumptions underlying the valuations. The assumptions are based on recent observed experience to 31 December 2021

A separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for expenses, lapse and surrender rates are based on product characteristics and relevant claims experience.

The assumptions used for discount rates are based on current Prudential Regulation Authority (PRA) and 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. From 31 July 2021, 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.

3 Critical Accounting Judgements and Estimates (continued)

(iv) Long term business provisions (continued)

The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. Uncertainties around Covid-19, one-off occurrences or changes in legislation, policy conditions or portfolio mix are also considered to arrive at the estimated ultimate cost of claims in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

(v) Pension scheme liabilities

Pension plan liabilities are based on appropriate valuation assumptions. These assumptions include an appropriate discount rate, the levels of salary escalation, price inflation and mortality rates. Further details are contained in note 24 to these financial statements.

4 Capital Management

The Group sets to create value for its members by investing in the development of the business whilst maintaining an appropriate level of capital available.

(a) Policies and Objectives

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

Details of the Society's objectives and its strategy to achieve them are provided in the Strategic Report on page 2.

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 Statement

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

The capital statement below covers all of the Society's life assurance business. There are no specific constraints on the capital of the Society. As the Society has no shareholders, all capital belongs to its members.

	Society	
	2021	**2020**
	£'000	**£'000**
Fund for Future Appropriations	18,736	20,838
Regulatory Solvency Adjustments	(1,704)	(2,675)
Total available capital resources	**17,032**	**18,163**
Solvency ratio (unaudited)	166%	176%

(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:

	2021	**2020**
	£'000	**£'000**
Capital resources at 1 January	**18,163**	**15,250**
Changes in available capital due to:		
Model changes	-	834
Assumption changes	(1,012)	372
Investment returns (credited)/not credited to policyholders	(47)	(813)
Policy movements	(1,533)	(702)
New business	2,225	2,919
Change in risk margin not due to assumption changes	79	780
Change in current liabilities	(725)	(83)
Change in pension scheme	435	(227)
Other	(553)	(167)
Capital resources 31 December	**17,032**	**18,163**

Policy movements includes the effects of movements in interest rates during the year. Interest rate rises reduce the value of expected future cash flows from protection policies. Assumption changes in the year reflects the strengthening of reserves for longer term sickness claims and the Society's projected investment into the business for future years.

5 Risk Management and Control

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

(a) Underlying Approach to Risk Management

The following key principles outline the Group's approach to risk management and internal control. The strategic report section of this Annual Report and Accounts includes a summary of the Group's risk management and internal controls.
- The Board has responsibility for overseeing risk management.
- The Board Risk Committee handles 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.

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

The Group operates an online risk register which enables the Board, via the Board Risk Committee, to manage the risks faced by the business in a highly proactive manner. The system is used by staff at all levels in the organisation to ensure an enterprise wide approach to risk identification, assessment, management and mitigation is in operation. Risks are continuously assessed as they change and develop. The following are the material risks arising from financial instruments that have been identified by the Group:

(i) New Business Risk

The Group should generate sufficient volumes of new business to ensure it can continue to fund ongoing operations and generate the returns and benefits reasonably expected by its members. Therefore, it must compete in the open market to win business and in so doing faces a range of risks including the insurance risks described below plus others such as over paying to generate sales and the risk associated with mis-sold or misrepresented products. 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 than expected in terms of numbers and values.
- Lapse risk is the risk the policies cease and therefore contributions from future premiums are not as high as anticipated.
- Expense risk is the risk that the future costs of administering claims are higher than anticipated.

The 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, product withdrawal and revised pricing for replacement products. 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 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 21 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 5(c). The nature of the Society's protection business is such that it is exposed to the risk of higher sickness claims as a result of* Covid-19. The Society has assessed the potential impact of these additional claims over 2021 and included those within its solvency and liquidity projections. Additionally, the Society has reviewed its internal claims management processes to reflect the likely nature of claims arising.

(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.

5 Risk Management and Control (continued)

(iv) Liquidity Risk

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

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

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

2021 Cash flows (undiscounted)

	Less than 1 year £'000	2 - 5 years £'000	6 - 10 years £'000	> 11 years £'000	Total £'000	Balance sheet carrying value £'000
Group & 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)**

2020 Cash flows (undiscounted)

	Less than 1 year £'000	2 - 5 years £'000	6 - 10 years £'000	> 11 years £'000	Total £'000	Balance sheet carrying value £'000
Group & Society						
Long term business provision	(2,177)	939	(6,492)	4,944	**(2,786)**	**(19,701)**
Linked liabilities	(1,229)	(4,819)	(28,175)	-	**(34,223)**	**(34,222)**
Other technical provisions	-	(18,976)	-	-	**(18,976)**	**(17,323)**
Net cash (outflow)/inflow	**(3,406)**	**(22,856)**	**(34,667)**	**4,944**	**(55,985)**	**(71,246)**

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

The Board and the Board Risk Committee oversees investment activity, monitors the investment manager's performance, and ensures that the investment policy are adhered to. In uncertain market conditions, investment performance is closely monitored daily. The policy and investment strategy are reviewed and approved by the Board and the Chief Actuary on an annual basis. The Group manages its assets for the benefit of its members in accordance with the Board approved Investment Policy. The 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.

(a) Equity Price Risk

Holdings in equities are by their nature subject to market movement. In order to mitigate this risk, the Group ensures that assets are invested in a manner consistent with the requirements set out in the Principles and Practices of Financial Management (PPFM).

(b) Property Price Risk

As at 31 December 2021, the Group and the Society do not directly hold properties. In the prior year, the Group held a small proportion of its total investment assets in directly held properties and like equities, the price of the property is subject to market movement. In order to mitigate this risk, the Group employed an external property consultant to manage its investment land and buildings.

(c) Interest Rate Risk

Interest rate risk exists for all assets and liabilities which are sensitive to changes in the term structure of interest rates or interest rate volatility. Due to the nature of the Group's products, the long term business funds may be impacted by these interest rate movements.

The interest rate benchmark reform resulted in the change from LIBOR to SONIA as the basis for risk-free rates. This impacts mainly the discounting of long term business provision for protection benefit. The impact at the point of transition was a reduction to long term business provisions of £198,000.

(d) Exchange Rate Risk

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

(vi) Credit Risk

Credit Spread Risk

The Group and Society hold units in externally managed investment funds which are exposed to credit spread risk.

5 Risk Management and Control (continued)

(vi) Credit Risk (continued)

Counterparty Default Risk

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

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

	2021		2020	
	£'000	**Credit Rating**	**£'000**	**Credit Rating**
Other Financial Investments at fair value	71,463	A	55,994	A
Assets held to cover linked liabilities	39,587	AA	34,222	AA
Reinsurance assets	15,231	AA	12,494	AA
Cash at bank	2,237	A	2,971	A
Trade and other debtors	336	Not rated	636	Not rated
	128,854		**106,317**	

As at 31 December 2021, trade and other debtors that were past due but not yet impaired was £228,000 (2020: £369,000). No other amounts were past due as at the date of the Statement of Financial Position.

(vii) Subsidiaries Risk

The Society's subsidiary, Financial Advice Network Limited (the "Network") acted as a distributor of some of the Society's insurance contracts. The Network has wound down its activities in the year.

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

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

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	
		2021	**2020**
Variable	Change in Variable %	Change in FFA £000s	Change in FFA £000s
Insurance risks			
Change in mortality (note 6(d))	-20%	(3,268)	(2,812)
Change in morbidity (%CMIR12) (note 6(e))	+25% inceptions and -20% recoveries	(13,973)	(13,241)
Change in expenses (note 6(c))	+10%	(3,581)	(3,414)
Change in lapses (note 6(f))	+10%	(5,227)	(5,140)
Change in lapses (note 6(f))	-10%	12,126	13,739
Market risks			
Change in fixed interest yields (note 5(b)(v)(c))	*PRA interest rate up*	(5,551)	(5,825)
Change in fixed interest yields (note 5(b)(v)(c))	PRA interest rate down	1,548	285
Fall in equity values (note 5(b)(v)(a))	-10%	(2,436)	(1,256)
Fall in property values	-10%	-	(111)

6 Long Term Insurance Liability Valuation Assumptions

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

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

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

Business Type	**Valuation Method**
Life Business	
Regular premium life	Asset share plus cost of guarantee
Unitised with-profits pension	Reserves equal to the value of the 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	Gross premium with members' accounts (where relevant) valued equal to asset shares plus cost of guarantees and sickness benefit valued using an inception/recovery average weeks claim approach. The pure IP business is net of reinsurance where appropriate. Reserves for the closed book of Premier Protect business are calculated using individual case estimates.

6 Long Term Insurance Liability Valuation Assumptions (continued)

(b) Discount Rate of Interest

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

(c) Expenses

This is the risk that expenses associated with policyholder contracts are higher than expected. The Society's expenses were analysed between acquisition and maintenance expenses.

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

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

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

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

(d) Mortality

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

	2021	2020
Life Business excl. Over 50s and ISAs	100% AXC00	100% AXC00
Over 50s	200% - 400% AXC00	200% AXC00
Income Protection	100% AXC00	100% AXC00
ISAs	80% AXC00	100% AXC00

(e) Morbidity

This is the risk that policyholders make claims more frequently or for a longer period of time than expected resulting in increased liabilities for protection policies. The following table sets out the sickness assumptions at the end of 2021 and those used at the end of 2020.

	2021	2020
Inception rates		
Adult Holloway	25% inceptions	25% inceptions
Young Holloway	10% inceptions	10% inceptions
SIPP Holloway	70% inceptions	100% inceptions
Non-profit Income Protection	12% - 40% of CMIR12 inception rates depending on deferred period	10% - 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	40% - 720% of CMIR12 recovery rates depending on deferred period	40% - 225% of CMIR12 recovery rates depending on deferred period

(f) 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.

(g) Options and Guarantees

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

7 Earned Premium Analysis

	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Society and Group				
Regular Premiums				
Insurance contracts	9,442		8,540	
Participating investment contracts	11,467		9,863	
		20,909		18,403
Single Premiums				
Participating investment contracts	10,851		8,718	
		10,851		8,718
Gross premium written		31,760		27,121
Outward reinsurance premiums		(1,513)		(1,065)
Earned Premiums		**30,247**		**26,056**
Of which earned in:				
United Kingdom		30,235		26,045
Republic of Ireland		12		11

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 £4,406,000 in 2021 (2020: £6,380,000) 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 21(b)) and other technical provisions in the Statement of Financial Position (note 21(c)).

8 Investment income

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Rental income from land and buildings	-	84	-	84
Dividend income (note 15(c))	-	-	400	-
Other investment income	3	-	3	39
Net fair value adjustment on investment property (note 16(a))	-	231	-	231
Realised losses on disposal of investment property (note 16(a))	(215)	-	(215)	-
Realised losses on financial assets disposed during the year	(1,377)	(83)	(1,377)	(83)
Unrealised fair value gains/(losses) on revaluation of financial assets	11,832	(4,898)	11,832	(4,898)
	10,243	**(4,666)**	**10,643**	**(4,627)**

9 Other technical income

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Introducer fee income	111	68	111	-
Network commission income	42	190	-	-
	153	**258**	**111**	**-**

10 Society and Group Net Operating Expenses

	Society and Group 2021 £'000	2020 £'000
Acquisition costs	10,925	9,200
Administration expenses	2,312	2,177
Reinsurance commission	(1,364)	(1,087)
	11,873	**10,290**

Included in the operating expenses are:

	Society and Group 2021 £'000	2020 £'000
Auditor's remuneration for financial statements audit services, excluding VAT	80	72
	80	**72**

The cost of the audit services for the subsidiaries of £nil (2020: £nil) has been included in Other Technical Charges as both subsidiaries are exempt from the audit requirements.

11 Staff Costs

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

	2021	2020
Board Members	9	9
Staff - Acquisition	45	44
Staff - Administration	19	19
	73	**72**

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

	2021 £'000	2020 £'000
Wages and salaries	3,432	3,238
Social security costs	367	361
Pension costs	400	392
	4,199	**3,991**

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.

12 Investment expenses and charges

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Property management expenses	56	17	56	17
Investment management fees	109	95	109	95
Charges on investment in subsidiaries	-	-	651	-
	165	**112**	**816**	**112**

13 Other technical charges

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Network administration expenses	130	322	-	-
	130	322	-	-

14 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 2021 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 2021 and the prior year. Mrs Spinks was an employee of OAC plc in 2021 and in the prior year. Neither Mrs Spinks, her husband or her children were members of the Society at any time during 2021 and the prior year.

2. Neither Mrs Spinks, her husband or children had any financial interest in any transaction with the Society during 2021 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 £22,915 (2020: £28,142). No other benefits, emoluments, pensions or compensation was paid.

4. Mrs Spinks did not receive, and will not receive, any other financial benefit from the Society.

15 Taxation

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Corporation Tax				
Policyholder tax charge/ (credit)	-	-	-	-
Deferred Tax				
Timing differences, origination and reversal	-	15	-	-
Total tax charge/(credit)	-	15	-	-

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% (2020: 20%). The applicable UK corporation tax rate is 19% for the subsidiaries (2020: 19%).

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.

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 2021, the Group did not hold any provisions for uncertain tax positions.

Reconciliation of Current Year Tax Charge

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
(Deficit)/Excess of income over expenditure before tax	(2,369)	3,837	(2,532)	3,940
Tax on (deficit)/excess at 19% (2020: 19%)	(450)	729	(481)	749
Factors affecting tax charge				
Accounting profit not subject to policyholder tax	463	(748)	481	(749)
Non-taxable income	(29)	-	-	-
Accelerated capital allowances	-	-	-	-
Movement in unprovided deferred tax asset	16	19	-	-
Prior year tax adjustment	-	15	-	-
Total tax charge	**-**	**15**	**-**	**-**

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

The Society has an unrecognised deferred tax asset on deductible expenses carried forward of £1,261,000 (2020: £853,000). It is not currently considered probable that these losses will be utilised and therefore the deferred tax asset continues not to be recognised.

16 Investments

(a) Land and buildings (Group and Society)

	Market Valuation 2021 £'000	Market Valuation 2020 £'000
As at 1 January	1,112	881
Net (loss)/gain from fair value adjustments	-	231
Realised losses on disposal of investment property	(215)	-
Net proceeds on disposal	(897)	-
	-	1,112

Following disposal, the cost of the investment property was £nil as at 31 December 2021 (2020: £1,597,000) for the Group and the Society. The net proceeds on disposal are 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.

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

	Cost 2021 £'000	Market Valuation 2021 £'000	Cost 2020 £'000	Market Valuation 2020 £'000
UK unlisted equities	-	-	3,148	-
Pooled investments	69,037	71,463	56,601	55,994
	69,037	71,463	59,749	55,994
Assets held to cover Linked Liabilities	25,146	39,587	25,167	34,222
	94,183	**111,050**	**84,916**	**90,216**

See note 16(d) for fair value measurement techniques applied to financial assets. Total proceeds received from disposal of investments in the year was £2,281,000 and the realised loss on disposal was £1,377,000.

(c) Investment in Subsidiaries (Society)

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 2021.

	2021 *£'000*	2020 *£'000*
Shares in subsidiaries	-	*500*

As at 31 December 2021, the cost of the investments held by the Society have been impaired by £500,000. This reflects the reduction in net assets held by the subsidiary after dividends were paid to the Society.

(d) *Fair Value Measurement*

Fair value is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. Fair values are generally determined at prices quoted in an active market (level 1). Where such information is not available it may be possible to apply calculation techniques making use of market observable data for all significant inputs (level 2). Where inputs are not based on observable market data, fair values are classified as level 3. Level 3 financial assets are fair valued by reference to arm's length transaction for identical assets at the valuation date with consideration of the trading performance of the investment.

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

	Group and Society 2021			Group and Society 2020		
Financial Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets held to cover linked liabilities	39,587	-	-	34,222	-	-
Pooled Investments	-	71,463	-	-	55,994	-
	39,587	**71,463**	**-**	**34,222**	**55,994**	**-**

17 Debtors: Amounts receivable within one year

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Debtors arising out of direct insurance operations	21	15	21	15
Debtors arising out of reinsurance operations	66	27	66	27
Other debtors	315	621	315	612
Amounts owed by group undertakings	-	-	-	119
	402	663	402	773

Other debtors include clawback commission debtors which are stated after provisions for impairment of £578,000 (2020: £518,000)

18 Tangible assets

	Society Property Improvement £'000	Society Fixtures & fittings £'000	Society Total £'000	Group Total £'000
Cost				
At 1 January 2021	392	221	**613**	625
Additions	-	34	**34**	34
Disposals	-	-	**-**	-
At 31 December 2021	**392**	**255**	**647**	**659**
Depreciation				
At 1 January 2021	59	162	**221**	233
Provided for in the year	28	31	**59**	59
Disposals	-	-	**-**	-
At 31 December 2021	**87**	**193**	**280**	**292**
Net book value				
31 December 2021	**305**	**62**	**367**	**367**
31 December 2020	333	59	392	392

There are no assets acquired during 2021 using a finance lease arrangement (2020: £nil).

19 Intangible assets

	Society Software £'000	Society Total £'000	Group Total £'000
Cost			
At 1 January 2021	1,734	**1,734**	2,001
Additions	331	**331**	331
Disposals	-	**-**	-
At 31 December 2021	**2,065**	**2,065**	**2,332**
Depreciation			
At 1 January 2021	1,209	**1,209**	1,476
Provided for in the year	280	**280**	280
Disposals	-	**-**	-
At 31 December 2021	**1,489**	**1,489**	**1,756**
Net book value			
31 December 2021	**576**	**576**	**576**
31 December 2020	525	525	525

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

Fund for Future Appropriations (Group)	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Balance at 1 January		20,726		17,196
Transfer (to)/from Technical Account	(2,369)		3,822	
Transfer from/(to) Other Comprehensive Income	430		(292)	
		(1,939)		3,530
Balance at 31 December		**18,787**		**20,726**

Fund for Future Appropriations (Society)	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Balance at 1 January		20,838		17,190
Transfer (to)/from Technical Account	(2,532)		3,940	
Transfer from/(to) Other Comprehensive Income	430		(292)	
		(2,102)		3,648
Balance at 31 December		**18,736**		**20,838**

21 Technical Provisions (Group and Society)

(a) Long Term Business Provision

	2021 £'000 Gross	2021 £'000 Reinsurers' share	2021 £'000 Net	2020 £'000 Gross	2020 £'000 Reinsurers' share	2020 £'000 Net
Balance at 1 January	32,168	(12,467)	**19,701**	26,859	(6,646)	**20,213**
Premiums received	*31,760*	*(1,513)*	***30,247***	*27,121*	*(1,065)*	***26,056***
Claims paid	(15,071)	899	**(14,172)**	(12,022)	628	**(11,394)**
Change in the provision for claims	(542)	327	**(215)**	(300)	195	**(104)**
New business	(8,270)	(3,087)	**(11,357)**	(1,799)	(2,850)	**(4,649)**
Experience, assumptions and other changes	5,508	676	**6,184**	(6,858)	(2,729)	**(9,587)**
Changes in methodology (note 4(d))	-	-	-	(834)	-	**(834)**
Balance at 31 December	45,553	(15,165)	**30,388**	32,168	(12,467)	**19,701**
Balance at 31 December comprises:						
Long Term Business Provision for protection benefit	(48,378)	-	**(48,378)**	(47,365)	-	**(47,365)**
Reinsurers' share of technical provisions	-	(15,165)	**(15,165)**	-	(12,467)	**(12,467)**
Long Term Business Provision for benefits excluding protection	93,931	-	**93,931**	79,533	-	**79,533**
	45,553	**(15,165)**	**30,388**	**32,168**	**(12,467)**	**19,701**

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

Further details on the movement in the year is provided in the Financial Performance Report on page 4.

(b) Linked Liabilities - Investment contracts

	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Balance at 1 January		34,222		38,220
Net contributions from members		28		241
Gains/(losses) on assets held for linked liabilities	5,987		(3,784)	
Fees deducted	(650)		(455)	
Movement on linked liabilities in Technical Account		5,337		(4,239)
Balance at 31 December		**39,587**		**34,222**

(c) Other technical provisions

	2021 £'000	2020 £'000
Balance at 1 January	17,323	10,998
Net contributions from members	4,017	5,985
Interest attributed to policyholders in the year	433	340
Balance at 31 December	**21,773**	**17,323**

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

(d) Claims outstanding

	2021 £'000	2020 £'000
Gross amount	2,008	1,466
Reinsurance amount	(523)	(196)
Balance at 31 December	**1,485**	**1,270**

22 *Other creditors, including taxation and social security*

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Amounts due to members	327	381	327	381
Taxation and social security	307	118	307	118
Other creditors	470	428	469	380
	1,104	**927**	**1,103**	**879**

23 Operating Rent & Lease Commitments

	Group and Society	
	2021	2020
	£'000	£'000
Total payable under non-cancellable operating leases are as follows.		
Amounts falling due < 1 year	96	97
Amounts falling due 2 - 5 years	587	510
Amounts falling due 5 years +	1,078	1,250
	1,761	1,857

Other operating expenses in the Statement of Comprehensive Income includes operating lease payments of £98,000 for 2021 (2020: £90,000).

24 Pension Scheme Obligations (Group and Society)

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

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

There are two categories of pension scheme members:
- Deferred members: former active members of the Scheme and not yet in receipt of a pension; and
- Pensioner members: members in receipt of a pension.

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 2021 by a qualified independent actuary. The assumptions used were as follows:

	Year ended *31 December* 2021	Year ended *31 December* 2020
Actuarial assumptions		
Discount Rate	1.80% pa	1 20% pa
Retail price inflation	3.00% pa	2.80% pa
Consumer price inflation	2.20% pa	1.90% pa
Rate of increases of pensions in payment		
- CPI max 3%	2.00% pa	1.80% pa
- RPI max 5%	3.00% pa	2.80% pa
- RPI max 2.5%	2.20% pa	2.10% pa
Rate of increase for deferred pensioners	2.20% pa	1.90% pa
Demographic assumptions		
Mortality (Pre retirement)	As per post retirement	As per post retirement
Mortality (Post retirement)	S3PA_M CMI_2020_M/F [1.00%] (yob)	S3PA_M CMI_2019_M/F [1.00%] (yob)

	2021		2020	
Life Expectancies	Male	Female	Male	Female
Life expectancy for an individual aged 65 in the year	21.2 years	23.5 years	21.1 years	23.5 years
Life expectancy at age 65 for an individual aged 45 in the year	22.2 years	24.7 years	22.2 years	24.7 years

(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.

	Increse in defined benefit obligation	
	2021	2020
	£'000	£'000
100 basis points decrease in discount rate	590	640
100 basis points increase in RPI	187	202
100 basis points increase in CPI	234	254

24 Pension Scheme Obligations (Group and Society) (continued)

(c) Assets

The assets of the Scheme are invested as follows:

	31 December 2021		31 December 2020	
	Market Value £'000	**% of total Scheme assets**	**Market Value £'000**	**% of total Scheme assets**
Asset Class				
Gilts	1,179	30%	1,135	29%
Cash	45	1%	64	2%
Diversified Growth Funds	1,246	31%	1,163	30%
Diversified Credit Funds	1,066	27%	1,184	30%
Equities	436	11%	358	9%
Total	***3,972***	***100%***	***3,904***	***100%***

The actual return on assets over year was a gain of £251,000 (2020: gain of £255,000).

(d) Reconciliation to the Statement of Financial Position

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Market Value of assets	3,972	3,904
Present Value of liabilities	(4,342)	(4,708)
Deficit in the scheme	(370)	(804)
Pension liability recognised in the Statement of Financial Position before allowance for deferred tax	**(370)**	**(804)**

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

	Assets £'000	DBO £'000	Total £'000
As at 1 January 2021	*3,904*	*(4,708)*	***(804)***
Benefits paid	(196)	196	-
Employer contributions	13	-	**13**
Interest income/(cost)	46	(55)	**(9)**
Remeasurement gains/(losses):			
- Actuarial gains: changes in assumptions	-	225	**225**
- Return on plan assets excluding interest income	205	-	**205**
As at 31 December 2021	**3,972**	**(4,342)**	**(370)**

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Technical Account:		
Total Service Cost comprising past service cost	-	-
Net Interest	9	10
Amount charged to operating expenses in the Technical Account	**9**	**10**
Other comprehensive income:		
Remeasurement of the net defined benefit liability/(asset):		
Actuarial gains/(losses) on liabilities	225	(476)
Return on assets excluding amount included in net interest	205	184
Gain/(loss) recognised in Other Comprehensive Income	**430**	**(292)**
Total amount (credited)/charged to Statement of Comprehensive Income	**(421)**	**302**

(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 Janaury 2022.

25 Events after the date of the Statement of Financial Position

On 24 February 2022, Russia invaded Ukraine. The evolving situation in Ukraine is highly uncertain and continues to develop. The humanitarian crisis and the global response to the conflict can potentially disrupt global economic activity This disruption can heighten the risks on the Society's investments, growth of new business and operations. As the situation is rapidly evolving, it is not practical to fully quantify the potential impact on the Group. At the time of approving these financial statements, the Society remained above its required solvency levels. Management will continue to monitor the evolving situation and take appropriate actions to manage the disruptions and financial impacts.

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, polices and people by directing management activities with objectivity, accountability and integrity.
Financial Conduct Authority (FCA)	An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.
FRS102, FRS103	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 Stated 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	A 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.
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 principal 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 6 of the Report and Accounts refers to the assumption that the actuary uses in calculating the Technical provisions The references are to standard actuarial tables for calculating death and sickness rates.
With-Profits Fund	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