

Annual Report and Financial Statements

Financial year ending
31st December 2025



Mutuality and Purpose

Our strategy is to offer simple and accessible products which provide our members with a more certain financial future. We have made it our mission to provide clear, fair products that help our members organise their finances and secure their family's future. Our values guide our behaviour and the way we deliver our products and services.

Our Directors and Advisers
Non-Executive Directors

Mark Myers – Chair
 Alison McKinna – Senior Independent Director
 Cameron Mills
 Neil Tinegate
 Simon Pashby (retired on 7th July 2025)
 Oliver Laird (effective from 1st January 2025)

Executive Directors

Jonathan Sandell – Chief Executive (effective from 1st January 2026)
 Ann-Marie O’Dea – Chief Executive (stepped down on 31st December 2025)
 Samuel Chivers – Chief Operating Officer
 Christopher Critchlow – Chief Actuary

Company Secretary and Registered Office

Elizabeth Martin
 Haw Bank House, Cheadle SK8 1AL

Chief Actuary

Christopher Critchlow FIA

With-Profits Actuary

Cara Spinks FIA (Broadstone Limited)

External Auditors

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

Internal Auditors

RSM UK Risk Assurance Services LLP

Tax Advisors

PwC LLP

Bankers

Santander UK PLC

Investment Managers

Royal London Asset Management Limited (“RLAM”)
 Legal & General Investment Management Ltd (“LGIM”)
 Russell Investments Ltd

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The Shepherds Friendly Society Limited

(“The Society”) 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 - A Message From Our Chair

The Board is pleased to present this year's report and accounts, and to welcome our members to a review of what has been a challenging yet strategically constructive year for the Society. Uncertain economic and market conditions have tested many organisations, including ours, but this year has also brought important progress on the Society's strategic initiatives. This report sets out how we have navigated these pressures, continued to focus on our core purpose, and worked to maintain stability for the members we serve.

As the Society reaches its 200-year anniversary, I am pleased that its purpose remains the same: to improve our members' lives through financial security. We have made it our mission to simplify the complex and to provide our members with financial wellbeing. Our values guide our behaviour and the way we deliver our products and services and our ambition to become your personal finance provider of choice.

External Environment

Inflation and interest rates continued to ease during the year, although the pace of decline was slower than anticipated and consumers and savers continued to manage pressures from the cost of living. Our members have had to make financial choices on what they consider important, reviewing their personal finances and in many cases supplementing affordability with existing savings.

Domestic pressures on healthcare systems continued to intensify, with medical appointment waiting lists and unemployment placing additional strain on public services and household wellbeing. At the same time, reductions in government-provided sickness benefits added further financial pressure for individuals facing ill health. These combined factors created a more challenging environment for members, and many were thankful to have the comfort of their Income Protection policies, meaning the Society was there for our members when you needed us most.

For our saving members, investment markets have been volatile during the year, caused by ongoing trade tensions and geopolitical uncertainty. Our investment strategy focuses on a diversified portfolio of investment assets and this has helped to protect our members from the effects of volatility. As a result, the Society continues to pay competitive quarterly bonuses to our with-profits members even during the periods of significant market volatility.

Our Response

The Society responded proactively to these external pressures by strengthening its support for members. Operational processes were reviewed to improve the efficiency and consistency of processing member requests, including claims handling. Alongside this, the Society invested in supporting our members in recovery using rehabilitation services. This enabled us to deliver what matters most to our members, which is getting back in work.

We have also continued to update our technology platforms through our online and mobile app investment. More and more members are now able to do what they need to do immediately for themselves without writing or calling. This saves them time and reduces costs to the Society, which can then be passed on to members in the form of quarterly bonuses.

The Society regularly reviews and continues to invest strategically in our Income Protection proposition so that the product continues to meet the needs of our policyholders and the Society's wider membership base.

The Society also recognises the importance of choice for its members, and we have launched a unit-linked Stocks and Shares ISA that provides members with additional options depending on their financial priorities and appetite for investment risk. This will help diversify the sources of new business for the Society and add resilience to the Society's longer-term growth.

Financial Results

The Fund for Future appropriation ("FFA"), which represents the capital available for the long-term growth of the Society and protects members against future risks, is £21.7m, compared with £20.8m at the end of the previous year. The increase in FFA was driven by the growth in the Society's membership and this is testament to the Society's member-focused products and engagement.

While the Society's FFA has increased, the Society's solvency ratio, a measure of the Society's financial strength, was 171% as at 31st December 2025 and 189% in the prior year. The decrease is a function of policyholder experience over 2025, continued strategic investment into the business and additional capital set aside under Solvency UK rules for what the Board agreed to be fair outcomes for all members. While 2026 will provide greater clarity on some of these uncertainties, the Board maintains robust oversight of the Society's ongoing strategy and will take necessary mitigating actions guided by the Society's risk management framework.

Ongoing Strategy

Our vision is to grow sustainably and if the strategic fit is right, by acquisition. Throughout 2025, we have made significant progress by strengthening our product offering, enhancing our technical infrastructure, and investing in the development of our people. These investments are set to continue and accelerate in 2026 and our overall aim is to become your personal finance provider of choice.

We have already made meaningful progress towards this strategy, including reaching agreement on commercial terms for the transfer of Foresters Friendly Society's UK insurance business to us just before the publication of this report. This transaction will support the Society's members with additional scale and a more resilient position for the FFA.

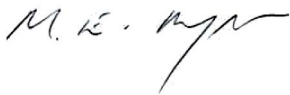
It will take a number of months of careful planning and preparation before the expected transfer in January 2027 and we will communicate in more detail to members in due course. The transfer will ultimately be subject to regulatory approval.

I am proud of the direction in which the Society is moving and of the dedication our people continue to show in delivering our strategy.

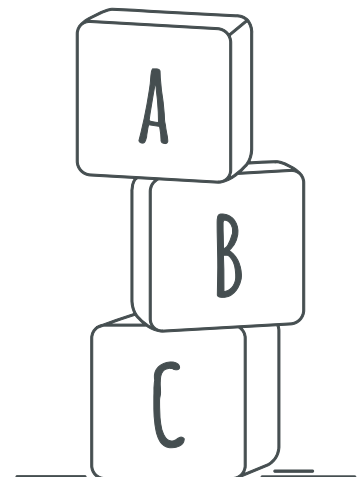
Our Board

2025 has been a year of significant change for our Board, marked by our Chief Executive Ann-Marie's decision to step down. I would like to express my sincere gratitude for her leadership, hard work and dedication over the last decade. We now welcome our new CEO, Jonathan Sandell and look forward to his new insight and direction as the Society enters the next phase of its strategic development. I would also like to welcome Oliver Laird to the Board as our new Audit & Compliance Committee Chair, having replaced Simon Pashby at the last AGM. Simon has been instrumental in shaping the governance of the Society and providing calm and wise counsel throughout his nine years of service.

Collectively, the Board forms a strong and effective team, united in our commitment to the strategy that will guide the Society over the coming years. We remain fully committed to delivering on this vision and to the organisation's continued progress. To do this we need the dedication and support of our people and I thank them for their tremendous loyalty and efforts to deliver the best possible outcomes for you, our members.



Mark Myers
Chair
1st April 2026



Strategic Review by Our Chief Executive

It is a privilege to be joining the Society as Chief Executive in its bicentennial year and a deeply personal responsibility to help ensure that we continue to fulfil our purpose. This is a pivotal moment for the Society—one shaped by meaningful progress, evolving expectations, and real opportunity. Over the past months, I have been inspired by the dedication of our people to support our members, and the strength of the foundations already in place. As we look ahead, my focus is on building the momentum of the business and ensuring we continue to support members to build their financial security.

Our KPIs

Membership numbers, solvency ratio and the Fund for Future Appropriation (“FFA”) are our key measures that we rely on to understand how effectively we are performing and whether we are moving in the right direction. They outline the indicators that help us track our momentum, assess the impact of our decisions, and confirm that our activities remain firmly connected to our long-term ambitions as a mutual organisation.

The Society’s in-force policy numbers have increased to 166,000 (2024: 159,000). The increase was a combination of member retention and new business volumes in the year, mainly on our with-profits book of business which has grown by 16%. The Society’s FFA has increased by £0.9m, and solvency ratio was 171% at 31st December 2025, comfortably above the regulatory requirements.

Understanding This Year’s Financial Outcomes

Over the year, the Society has invested to promote our products, brand and distribution channels, and make them more relevant to members and target markets. As a result, the Society’s total net premiums have increased by £8.6m. Claims incurred, net of reinsurance has increased relatively less at £2.8m even as external domestic pressures caused an increase in the amounts paid out to support our members in the form of withdrawals from savings products and Income Protection claims.

Net operating expenses increased from £22.2m in the prior year to £22.5m in 2025. This increase of 1.3% is primarily driven by the strategic investment into the business to deliver growth and ensuring the Society has the systems and controls in place to effectively support that growth. Acquisition costs have reduced in line with lower commission costs in the year.

Total investment assets held by the Society increased by £35.4m to £181m driven largely by investment income of £19.9m and net additions to investments of £15.5m in the year. This growth reflected the broader optimism over 2025 in global equity markets, which rebounded from volatility earlier in the year linked to trade tariff concerns. While equity markets reached new highs, they remain volatile with the ongoing geopolitical uncertainty and concerns over the impact of artificial intelligence (“AI”) on valuations. Our investment strategy aims to protect members from this volatility by diversifying its investments across a range of assets such as corporate bonds, commodities and cash, in addition to equities.

The value of long-term business provision has increased by £10.5m as a function of new business in the year and the Society’s strengthening of reserves to manage the uncertainty of policyholder experience over 2025.

Progress Against Our Strategy

We set out at the start of the year to refresh our strategy by focusing on three core priorities: strengthening and evolving our product offering to ensure it remains relevant for members and attractive to new markets; investing in the growth of our with-profits membership base; and enhancing the way we work by developing the skills and capabilities of our people. Alongside this, we committed to improving our technology environment so our teams can operate efficiently and securely while continuing to deliver high-quality service to members.

I am pleased to report that we made strong headway across all three strategic aims. Below, I outline the major achievements that brought this progress to life.

Products

Towards the end of the year, we launched our unit-linked ISA product, an important addition to our portfolio designed to broaden our reach and appeal to a wider customer base. This advanced offering provides members who select it with a fully integrated, end-to-end in-app experience, giving them greater control and convenience in managing their medium and long-term investments.

We undertook a comprehensive strategic review of our Income Protection product during the year, assessing its structure and identifying opportunities to ensure it remains competitive and fit for members. The insights gained will inform our plans for 2026 and beyond, supporting a strong and sustainable product proposition. We also strengthened our industry engagement through our collaboration with the Income Protection Task Force (IPTF), contributing to wider efforts to improve awareness and understanding of Income Protection across the market. In addition, we continued to invest in the support available to our Income Protection members, enhancing access to timely interventions that promote recovery and help facilitate a safe return to work.

We continue to review and refine our distribution channels across both our core internal products and our partnership arrangements. For our core offerings, we are ensuring that our products are positioned on the most effective and strategically aligned portals to maximise reach and visibility.

We are continuing to broaden our product expertise within our partnership network, where we have seen strong results from our group life collaboration introduced last year. During the year, we also expanded our offering by collaborating on a new Direct-to-Consumer Level Term Life Insurance product, further strengthening our presence in the protection market.

People

The Society recognises that our people and our culture of agility, resilience and flexibility are central to delivering our strategic objectives and achieving the best outcomes for our members. We have continued to evolve and strengthen our ways of working, enhancing processes and procedures to maximise the effectiveness of our operating approach.

Throughout this period of change, we have actively involved our people and created multiple channels for them to share feedback. We have continued to invest in their development through career progression opportunities and a range of training and upskilling options such as leadership courses through the Association of Financial Mutuals. The Society remains a strong advocate for a positive employee experience and the importance of continually investing in our employer value proposition.

Technological Environment

Over the year, we delivered a wave of platform, security, and user-experience improvements across our mobile app. We modernised our technology and performed security and maintenance updates to support ongoing operational resilience. We expanded core product capability by launching new features for the Society's Stocks and Shares and Investment ISAs. Collectively, these changes strengthened performance, security, reliability, and readiness for upcoming product launches while delivering a smoother, more accessible experience for customers.

We have also made significant investments in our internal technology landscape to ensure colleagues have the modern, reliable, and efficient systems they need to perform at their best. This has included upgrading core applications, streamlining internal processes and enhancing the stability and usability of the technology that our teams rely on every day.

Looking Forward

In the year ahead, our focus is simple: delivering great outcomes for our members and customers, every time. That means continuing to improve the quality and reliability of the services we provide, wherever people choose to engage with us. We also want to build real momentum in our commercial performance by growing new business through our intermediary partners and further enhancing our with-profits and unit-linked offerings.

We'll keep pushing forward on improving our digital journeys too, investing in technology that makes life easier for both our customers and our colleagues. And as we grow, we're committed to continuing to run the business in a disciplined and professional way, sharpening our governance, and strengthening the systems and controls that help us operate with clarity and confidence.

Most importantly, we'll continue to invest in our people. Their energy, collaboration, and ambition are what make everything else possible. By supporting their development and nurturing a high-performance culture, we'll put ourselves in the strongest position to support our members as the Society enters its third century.



Jonathan Sandell
Chief Executive
1st April 2026

Strategic Report - Our Positive Impact

We remain committed to operating as a sustainable business—one that delivers long-term value for our members, our people, and wider society. Sustainability, for us, means acting responsibly in every aspect of our work, ensuring our financial, environmental, and social decisions support lasting benefits for all. This approach is rooted in our mutual ethos.

Since 1826, we have focused on doing what is right: providing fair and transparent products that help members plan confidently for their financial future. That heritage naturally underpins our dedication to contributing to a more responsible and sustainable society, where the benefits of our actions are shared by everyone.

Our Responsibility to Members

We see mutuality as a fundamentally sustainable way to operate. It sits at the core of our identity and guides every decision we make. Without shareholders, we are able to focus entirely on the interests of our members, reinvesting our profits back into the business to deliver long-term value and meaningful benefits for those we serve.

We know that, for our members, feeling heard matters. That is why we have a dedicated Member Voice Committee focused not only on gathering member feedback but acting on it. This commitment to listening and continuous improvement helps us deliver the highest quality products and services to all our members.

We have fully embedded the Consumer Duty standard into the way we operate, ensuring it shapes our culture, our decision-making, and the services we deliver. This commitment means we consistently act in the best interests of our members and customers, raising standards across our products, communications, and support. By integrating Consumer Duty into our everyday processes, we continue to strengthen outcomes, enhance transparency in decision-making, and build deeper trust in everything we do.

Our Responsibility to Our People

We believe everyone deserves equal access to opportunity, which is why we are committed to fostering a diverse, inclusive, and engaging workplace. When our people feel supported and valued, they thrive—and that translates directly into better experiences and stronger service for our members.

The Society launched its formal diversity and inclusion strategy in 2025 with the key objective of ensuring that the Society recruits, retains, trains & develops, promotes and rewards our people based on individual merits - their qualifications, skills, knowledge and experience.

We believe diversity and inclusion start at the top. Our Board brings together skill sets from a wide range of backgrounds, ensuring broad perspectives and strong representation for our members. We appoint on merit and continually seek fresh voices to strengthen our leadership.

Our commitment to diversity and inclusion extends across the organisation. As supporters of the Women in Finance Charter, we have clear targets to increase female representation in senior management, helping us build a fairer workplace and deliver better outcomes for members. The Society also regularly review all salaries to ensure that there are no disparities between gender when undertaking similar roles, taking into consideration experience and qualification. We are also proud members of the Mutual Diversity Alliance, collaborating across the sector to share best practice, drive innovation, and contribute to a more inclusive financial industry and society.

In 2025, we celebrated International Women's Day with a talk from our female Non-Executive Director regarding her career and home life. We also recognised National Inclusion Week which included neurodiversity training, a session exploring how to sustain inclusive spaces, a culture exchange celebrating the diversity of our people, and encouraged everyone to share their personal experiences of inclusion and how we can become a more inclusive employer.

We have continued to develop and improve our recruitment and selection process to ensure that we attract a diverse pool of candidates, including introducing anonymous CVs for all vacancies to remove bias. As a result of the initiatives we have undertaken, the demographic characteristics of our people have continued to improve or remain stable across all areas.

We are committed to developing our people from the moment they join us, ensuring they have the support, opportunities, and resources needed to grow professionally. In 2025, this commitment was reflected in the 14 colleagues we supported in achieving professional qualifications. Investing in their skills not only strengthens individual careers but also enhances the capability and expertise across our organisation.

Our Responsibility to Our Local Community

We aim to make a positive impact in the communities we serve. To support this, every colleague is encouraged to dedicate one working day each year to volunteer with a local charity. In 2025, our teams used this time to support a range of causes, including a learning disability charity and a local foodbank, demonstrating our ongoing commitment to meaningful community engagement.

We make the most of our time together as an organisation by hosting regular fundraising activities, reflecting our commitment to supporting charities in the vital work they do. In 2025, these efforts enabled us to donate £3,386 to the Seashell Trust, along with £255 to Macmillan through our annual coffee morning.

The Society has engaged with local colleges and organisations to support young people with routes into the workplace and provide a better understanding of career opportunities. Our activities have included attending careers fairs/events at a local sixth form college and two high schools, hosting a summer internship, and offering mentoring opportunities through external charities for two young people from lower socio-economic backgrounds. We have also introduced an internal mentoring scheme for colleagues to support one another with their development.

Our Responsibility to Environmental and Climate Change

The Society recognises its responsibility to assess and manage the implications of climate change for our members, our operations, and the wider community.

Governance

The Board holds overall responsibility for the Society's climate change strategy and risk appetite, supported by the Board Risk Committee, which oversees climate-related financial risks and their implications for our strategy and risk framework. The Nominations & Governance Committee monitors the implementation of our climate strategy. Our Environmental Policy, approved by the Board, underpins this governance approach.

Strategy

The Society has identified key climate-related risks and opportunities and is taking steps to mitigate these risks and maximise potential benefits. Our strategy focuses on reducing our operational carbon footprint

in line with international targets, assessing and stress-testing climate impacts within our long-term financial planning, and maintaining transparent reporting on our climate-related risk appetite.

As part of our investment strategy, the Board works closely with our investment managers to ensure their approach supports our climate objectives. Our investment managers, RLAM and LGIM, actively engage with the companies they invest in to encourage positive environmental practices and apply negative screening to limit exposure to organisations with weak environmental, social and governance (“ESG”) standards.

Risks and Opportunities

The Society identifies and monitors climate-related risks through its Risk Management Framework, with oversight from the Board Risk Committee. Both the Framework and the ORSA are regularly updated to reflect emerging financial risks from climate change. Rather than creating a separate category, climate risks are embedded within existing headline risk areas, ensuring all risk owners consider climate impacts as part of their ongoing risk assessment. The Society’s key risks relating to climate change fall within three areas: Product, Capital, and Operational. Ongoing monitoring of these risks continues with appropriate mitigating actions remaining in place. There has been no change in this assessment in the current year.

Metrics and Targets

The Society has two metrics which are designed to be an early warning indicator that the risks discussed above may not be being managed as expected. The basis of the two metrics is to monitor CO2 emissions for both the Society’s investment managers and the Society’s operations.

Emissions are categorised into three scopes, in line with climate change standards:

Scope 1 includes all emissions generated directly, for example by company-owned equipment or vehicle fleets.

Scope 2 lists emissions generated by purchased energy, for example electricity and district heating.

Scope 3 includes all other emissions that are not under direct corporate control, such as employee travel or product disposal.

For the Society’s investment managers, the metric monitors scope 1 and 2 emissions by value invested, measured under standard global usage in US Dollars. This is considered to be the most direct measure of the carbon emitting activities of the companies that the Society invests in.

For the Society itself, the metric monitors scope 1, 2 and 3 emissions per employee. This is the total emission the Society nets off by investing in green carbon offsetting initiatives.

In both cases these metrics are calculated annually and 2024 has been determined as the baseline year. For Metric 1, we utilise the most up to date information from the fund managers or comparable sources.

In 2025, we note an increase in Metric 2. This rise is primarily driven by higher emissions associated with staff commuting. We accept this from a cultural perspective as it is important to us that we achieve the right balance of employee face-to-face interaction in the office, to develop and maintain skills, collaboration and values.

The Society acknowledges that reducing emissions is essential, and that establishing clear, measurable targets provides the strongest foundation for progress. The Society will consider ways to limit emissions from staff commuting, such as encouraging cycle-to-work or use of electric vehicles, and explore what our targets will be for future years.

	2024	2025	RAYG rating
Metric 1 Scope 1 & 2 emissions per \$million invested	50.6tCO ₂ e/\$m	48.7tCO ₂ e/\$m	In line with target
Metric 2 Total scope 1, 2 & 3 emissions per employee	1.10 tCO ₂ /employee	1.25 tCO ₂ /employee	Increase from prior year

Strategic Report - Risk Management Report

Risk Appetite

The Board is responsible for setting the Society’s risk appetite which is expressed in the annual Own Risk and Solvency Assessment (“ORSA”). The ORSA is fundamental in forming the strategy for the Society and is produced annually or produced more frequently if the Society’s risk profile has changed materially.

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

Risk Management Framework

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

1st line of defence

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



2nd line of defence

- **Risk & Compliance department**
- **Actuarial Function**
- Guidance and direction
- Oversight
- Monitor effectiveness of policies and framework



3rd line of defence

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

The Society’s Risk Management Framework (the “RMF”) sits alongside the strategic plan and is designed to be proportional, aligned, embedded and dynamic. The RMF looks to ensure that risk management and risk culture support the identification, assessment, management and control of material risks that threaten the achievement of the strategy as well as fair treatment of and outcome for members and customers. The principal architecture for identifying and assessing risks includes setting out the main risk categories, assigning headline risks to risk owners in the Society, monitoring emerging risks, and reporting to the relevant Board Committees.

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

Summary of Key Risks

Product risk: The uncertainty around the value of the Shepherds Friendly product portfolio, the risk of financial loss through adverse demographic experience, its ability to make a return for members and the risk that the product portfolio does not represent fair value for customers.

The Society maintains a broad product range and diverse distribution channels to remain adaptable in changing market conditions. New business targets are aligned to the strategic plan and risk appetite, with the Board monitoring performance and ensuring Management takes timely action where material variances occur.

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

We mitigate these risks through robust marketing affiliate onboarding and oversight, including the review of financial promotions, and by closely monitoring marketing spend and return metrics. We also enhance resilience by diversifying broker relationships and maintaining rigorous onboarding and due diligence processes. In addition, the Society focuses on member retention initiatives and has strengthened the benefits available to Income Protection policyholders to support recovery and prevent sickness, while reinsurance arrangements and the ability to review premiums in line with contract terms help to manage adverse sickness experience.

The Society is committed to ensuring customers are treated fairly and receive good outcomes, supported by product training, Consumer Duty metrics and call monitoring (by exception). Consumer Duty is embedded across the business, with a Board champion providing oversight, and Management, the Fair Members Benefit Committee and the Board regularly reviewing information on complaints, customer communications and sales journeys to maintain strong governance.

Capital risk: This reflects the uncertainty around the value and liquidity of assets held by Shepherds Friendly, the risk of financial loss caused by a change in the value of investments or changes in the credit standing of counterparties to which the Society is exposed.

The Society holds investments in pooled funds that are designed to generate investment returns and reduce volatility risk in the longer-term. Investment risk volatility for the Society's with-profits fund is actively managed by fund managers at RLAM. The Society's unit-linked funds are invested in appropriate fund indices that are tracked by LGIM. The Society monitors investment fund performance and the effectiveness of its interest rate hedge, while also assessing market valuation tipping points that may require action. To minimise potential impacts, an agreed plan is in place to pause or withdraw elements of the strategic plan if conditions warrant it.

The Society monitors key financial drivers by tracking net cash flows from premiums, commission and fixed rate bonds. It also ensures reinsurance is collected efficiently and reviews marketing costs against expectations for each product line. Expenditure on strategic projects is monitored to ensure it remains aligned with planned budgets, and IP broker clawback credit risk is closely overseen.

Operational risk: This reflects the uncertainty around the ability of the Society to deliver the strategy set by the Board, be operationally resilient and meet legal and regulatory requirements, and mitigate the risk of financial loss through ineffective operational management.

The Society maintains strong governance over strategic delivery through a dedicated Project Review Board which oversees key workstreams and monitors strategic plan costs across product, platform and people initiatives. As another level of oversight, management committees are in place to ensure decisions remain aligned with priorities and resources.

The Society maintains minimum standards for product oversight, fair value and governance, supported by a dedicated Compliance function that ensures employees understand the laws and regulations relevant to their roles. Training programmes are reviewed annually to address any knowledge gaps, and all employees are required to complete at least 15 hours of continuing professional development each year.

The Society has an Operational Resilience Framework in place that stress tests operational and technological crises, including data and cyber risks, and identifies important business services, critical suppliers and key roles. The Framework sets review frequencies for key controls and how they can be adapted during periods of strain. Due diligence is carried out before any outsourcing arrangements are entered into, and the Society continues to invest in security systems to remain resilient against evolving cyber and physical threats.

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

Emerging risk: In addition to the key risks above the Society maintains a proactive approach to identifying and managing emerging risks, recognising that our operating environment continues to evolve rapidly. Several emerging risks have been identified that may influence our future, including the economic impact of geopolitical instability, the rapid advancement of artificial intelligence, and increasing competitive pressure from firms offering zero management fee products.

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 2025

Mark Myers – Chair and Non-Executive Director (Chair of Nominations & Governance Committee)

Experience: Mark has worked in the Financial Services sector for 40 years and has a broad range of experience across banking and insurance, having worked for both public companies and mutual organisations. His recent experience was as CEO of British Friendly, a mutual Income Protection provider and interim CEO of MetFriendly, an affinity based with-profits mutual which provides savings and investment products to members of the police service.

External appointments: Committee Member of Huntingdon Racecourse and Chair of the Board of Trustees of the Fry Art Gallery, Saffron Walden.

Jonathan Sandell – Chief Executive

Experience: Jonathan joined Shepherds Friendly as CEO in January 2026. He brought with him a wealth of experience gained from 20 years of leadership roles in the financial services industry. Most recently, he was the Customer and Proposition Director at Lloyds Banking Group, and in a previous role at Prudential UK and Europe, he managed the retail product portfolio and was responsible for redesigning its pensions and retirement proposition. He has also worked as an independent consultant. As Chief Executive, Jonathan provides strategic and operational leadership to ensure the Society's continuing development and financial stability.

External appointments: None

Alison McKinna – Non-Executive Director (Senior Independent Director and Chair of Remuneration & Engagement Committee)

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

External appointments: Non-Executive Director of BHSF (Chair of Remuneration Committee)

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 40 years not only in the UK but also in Europe and Asia. Cameron's last executive position was a Director and Chief Actuary for a UK mutual insurance company. Prior to that he has held roles in risk, compliance, marketing and sales.

External appointments: None

Neil Tinegate – Non-Executive Director (Chair of Board Risk Committee)

Experience: Neil is an experienced portfolio Non-Executive Director and Board Advisor across retail, consumer goods, financial services and education sectors. During his executive career, he held senior leadership roles within global PLCs, AIM-listed firms, and private equity-backed businesses.

A digital specialist, Neil has led large-scale initiatives to modernise and transform major UK and European businesses. He brings significant expertise in digital strategy, organisational change, and corporate governance, providing strategic oversight of digital evolution and long-term value creation.

External appointments: Non-Executive Director of Mansfield Building Society, Trustee of Shaw Education Trust and external advisor to a range of corporate clients.

Oliver Laird – Non-Executive Director (Chair of Audit & Compliance Committee)

Experience: Oliver has over 20 years of experience across retail, financial services and manufacturing sectors. With his extensive knowledge and insights at the board level as a CFO and NED, he is commercially focused and has a proven track record of delivering strategic change and operational improvements. Oliver has served as Chief Financial Officer at Lookers PLC and First Direct Bank, Director of Central Finance at Lloyds Banking Group, and Finance Director of Co-Op Insurance Services.

External appointments: Non-executive positions in both mutual and public organisations, including Beverley Building Society, Vanquis Bank and Paysafe.

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 Ltd where he previously acted as Chief Actuary and With-Profits Actuary to a number of insurers in the UK. As Chief Actuary for the Society, 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.

Samuel Chivers – Chief Operating Officer and Executive Director

Experience: Sam has been with the Society for over 15 years and joined the Board in 2019. Sam 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 chairs two management committees and oversees the operational resilience of the Society. Through delivery of the Society's Technology Strategy, he has played a key role in modernising the Society's infrastructure to add new capabilities and improve scalability to enable the Society to meet the evolving needs of our members.

External appointments: None

Board Attendance in 2025

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

	Jan	Mar	Apr ¹	May	May	Jul	Sep	Sep	Nov ³	Dec
	BM	BM	BM	BM	SD	BM	BM	SD	BM	BM
Mark Myers – Chair	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ann-Marie O’Dea – CEO	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Alison McKinna – NED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cameron Mills – NED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Neil Tinegate – NED	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Simon Pashby² – NED	✓	✓	✓	✓	✓					
Oliver Laird – NED	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓
Christopher Critchlow - Executive Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Samuel Chivers - Executive Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

(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 31st December 2024.

² Retired on 7th July 2025.

³ The meeting held in November was an additional meeting to discuss matters relating to the transfer of Foresters Friendly Society's UK insurance business.

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 15 to 33.

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 Articles 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 also underwrites life insurance policies sold through third-party arrangements. 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.

The activities of Financial Advice Network Limited and Financial Advice Website Limited have been discontinued in prior years.

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 ongoing basis throughout the year. The KPIs include membership numbers, solvency ratio, the changes to the Society's fund for future appropriations ("FFA") and net carbon neutrality. A financial and strategic review for the year is contained in the Chief Executive Report on page 5.

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 12 to 14. Note 25 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 its people in the business. Further monitoring is provided by the internal Risk, Compliance and Actuarial functions. The Society also engages an independent Internal Audit firm 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 page 25. 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 Nominations & Governance Committee provides oversight of the Society's initiatives on diversity, equality and inclusion and the Remuneration & Engagement Committee provides oversight of how the Society's remuneration policy and practices affect the Society's engagement with our people.

The Directors maintain various forms of communication with our people. The Executives regularly update our people on developments within the Society at meetings, through bulletins and other communications. Our people can raise formal matters of concern such as fraud, serious misconduct or malpractice anonymously through the whistleblowing process. The Society's diversity and inclusion initiatives are detailed on page 8.

Donations

The Society partners with charities in the local community, providing them with support in the shape of donations and running of events. The Society donated £3,641 (2024: £3,300) to charities during the year. No political donations were made during the year (2024: £nil).

Going Concern Statement

The Association of Financial Mutuals ("AFM") Corporate Governance Code comments that the Directors should state whether the business is a going concern over the next 12 months from the date of approval of the financial statements. 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 Chair's and Chief Executive's Reports from pages 2-7).
- The analysis of material risks faced by the Group and the management of those risks (see details in the Risk Management Report from pages 12 to 14).
- The confirmation from the Society's Chief Actuary that the Society had a solvency level higher than that required for regulatory purposes as at 31st December 2025 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 actions that management can take to manage emerging risks and the scenario testing performed as part of the annual ORSA process and 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.

The Directors have also considered the Society's longer-term viability over a period of at least five years as part of the ORSA process. This assessment considered the resilience of the Society to risks that would threaten the business model, future performance, solvency or liquidity of the Society. Stress testing was performed using a range of severe but plausible scenarios over the assessment period. The scenarios included significantly unfavourable variations in the level of new business, underlying economic assumptions, and policy lapses and claims due to adverse circumstances such as geopolitical uncertainty. In the 2025 ORSA, we have also considered how those variations might evolve with the uncertainty in the interest rate movements and persistent inflation.

Based on these assessments, the Directors have a reasonable expectation that the Group and the Society will be able to continue in operation and meet their liabilities as they fall due in the foreseeable future.

Statement of Responsibilities of the Board of Directors

The Directors are responsible for preparing this Directors' Report in accordance with the Friendly Societies Act 1992 and the regulations made under it.

The Directors are also responsible for preparing the Strategic Report (please see pages 2 to 14), the Report on Corporate Governance (please see Pages 15 to 33) and the Financial Statements (please see pages 34 to 70), 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. Each Director has taken all steps that they ought to have taken as a Director to make themselves 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 2025 Annual General Meeting. BDO LLP is permitted to serve as auditors for a further four 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.



E Martin
Company Secretary
1st April 2026

Corporate Governance – Corporate Governance Report
Introduction

The Society is governed primarily by the Friendly Society Act and adopts 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.

	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.	<input checked="" type="checkbox"/>	<ul style="list-style-type: none"> Under the Board’s leadership, the Society has a mission and vision aligned with protecting members’ interests and delivering products and services that meet their needs. Our values and principles guide all internal processes, with culture, conduct, and Consumer Duty compliance monitored by the Senior Management Team and reported to the Board. The Board remains actively engaged with our people through Together Days, social events, the annual conference, and reverse-mentoring initiatives that promote shared learning. The Society’s strategy, mission, and values are clearly communicated across the organisation and to our members.
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.	<input checked="" type="checkbox"/>	<ul style="list-style-type: none"> The Society’s Board composition, detailed on pages 15–17, reflects a broad mix of skills, experience and diversity in line with the Board Diversity Policy, with clear divisions of responsibility set out in the Board Manual. The Chair’s performance and independence are reviewed annually by the Senior Independent Director, and all directors undergo annual appraisal and stand for re-election at each AGM. All current non-executive directors have served fewer than nine years and remain independent under the Code. To strengthen diversity of thought, the Society has broadened its search for Board candidates beyond traditional financial services backgrounds, instructing recruitment partners to provide a diverse pool of applicants. The Board also supports regular external governance reviews, with the last completed in 2022 and the next scheduled for early in 2026. The Society continues to enhance its DEI framework, improving recruitment practices and advertising roles to under-represented groups. Comprehensive DEI data is collected across the workforce, and these principles will inform future non-executive director appointments.

	Principle	Applied	How the principle has been applied
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.	☑	<ul style="list-style-type: none"> The Society's governance framework is set out in the Board Manual, which outlines decision-making processes and Board conduct. The Society complies with the FCA's Senior Managers and Certification Regime, with annual assessments to ensure Senior Managers remain fit and proper. Conflicts of interest are managed under a dedicated policy and reviewed by the Nominations & Governance Committee. Board Committee responsibilities are defined in published Terms of Reference. Supported by internal and external auditors, the Board and its Committees maintain strong controls to ensure the accuracy and integrity of information used for 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.	☑	<ul style="list-style-type: none"> The Board maintains responsibility for strategic decision-making and long-term value creation, supported by twice-yearly strategy days to assess opportunities within the Society's risk appetite. The long-term strategy, principal risks and emerging risks are reviewed annually through the ORSA process, with key risks detailed in the Risk Management Report. The Board Risk Committee oversees a robust and integrated risk management framework, monitored by internal teams, management committees, Internal Audit, and the Audit & Compliance Committee. Both the Board and Executives remain alert to new business opportunities, approving partnerships and acquisitions, product enhancements and new routes to market only where they align with the Society's risk appetite.
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.	☑	<ul style="list-style-type: none"> The Society's Remuneration & Engagement Committee oversees the remuneration policy, outlined on pages 31–33. The policy benchmarks pay against comparable organisations and is designed to encourage strong performance, appropriate behaviours, and delivery of strategic objectives among the Executive team. Non-executive directors receive market competitive fees, with no incentive or performance related elements.

	Principle	Applied	How the principle has been applied
6	<p>Stakeholder Relationships and Engagement</p> <p>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.</p>	<input checked="" type="checkbox"/>	<ul style="list-style-type: none"> • The Society maintains strong relationships with its members through a wide range of communication channels, including face to face, telephone, written and online contact. Members can also raise concerns directly with the Senior Independent Director via the Society's website. The Board provides transparent and balanced reporting through the Annual Report, Financial Statements and the Solvency and Financial Condition Report. • An Annual General Meeting is held each year, giving members the opportunity to vote on these documents and other key matters. Further details on engagement with employees are provided on page 19. The Society also operates a robust Supplier Management and Outsourcing Framework to ensure third party arrangements deliver required outcomes while meeting regulatory standards.



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 at the date of approval of the financial statements
Audit & Compliance Committee	Oliver Laird
Board Risk Committee	Neil Tinegate
Fair Members Benefit Committee	Cameron Mills
Nominations & Governance Committee	Mark Myers
Remuneration & Engagement Committee	Alison McKinna

A summary is given below of the most significant governance work conducted by these Committees throughout 2025.

Audit & Compliance Committee

Key Responsibilities

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

1. provide guidance to the Board on matters affecting the Annual Report and Financial Statements and the Solvency Financial Condition Report (“SFCR”);
2. independently evaluate assurance from management, internal audit and external audit regarding the financial statements, governance and systems of internal controls;
3. assess the effectiveness of internal auditors and external auditors, and manage the process for any external and internal audit tenders; and
4. oversee compliance with the Friendly Societies Act 1992, the Financial Services and Markets Act 2000, the Financial Services Act 2012 and other relevant legislation.

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

Committee Membership

The qualifications of each member of the Committee are included in their biographies on pages 15 to 16. The Board is satisfied that the Chair, Oliver Laird has recent and relevant experience in accounting and the committee as a whole has competence relevant to the financial services sector.

There were five meetings in the year as follows:

	26 Feb	24 Mar	18 Jun	9 Sep	19 Nov
S Pashby (Non-Executive Director and Chair until retirement on 7th July 2025)	✓	✓	✓	n/a	n/a
A McKinna (Non-Executive Director)	✓	✓	✓	✓	✓
N Tinegate (Non-Executive Director)	✓	✓	✓	✓	✓
O Laird¹ (Non-Executive Director and Chair from 7th July 2025)	✓	✓	✓	✓	✓

n/a: Attendance is not mandated for non-committee members

¹ Notified Non-Executive Director 1st January 2025

Significant matters considered by the Committee in 2025

Annual Report and Financial Statements for year ending 31st December 2024

The table below highlights the significant matters in relation to the 2024 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	The Committee reviewed the going concern assessment produced by management. The assessment covered a 24 month period to 31 December 2026 and the assessment provided a view that the Society would remain solvent and liquid over that period. The Committee assessed the assumptions and stresses applied to projections as part of the annual ORSA and it was satisfied that the going concern assumption was appropriate for the 2024 financial statements.
Technical provision valuations methods and assumptions for the 2024 Annual Report and Financial Statements	As it is a significant risk area, the Committee independently assessed papers from the Chief Actuary detailing the technical provision valuations as at 31 December 2024. The Committee considered the reliability and accuracy of the valuation results, and its underlying assumptions and data. The Committee was satisfied that the valuations were appropriate having also considered the views of the external auditors.
Approval of the 2024 Annual Report and Financial Statements	In March 2025, the Committee reviewed and approved the 2024 Annual Report and Financial Statements for the Group and the Society and the financial statements for the Society's subsidiaries. This included reviewing key accounting judgements and assessing the appropriateness of the going concern assumption. The Committee ensured the annual report and financial statements were fair, balanced and understandable before recommending them to the Board for approval.

External Audit

For the financial year ended 31st December 2025, BDO LLP were re-appointed as external auditors at the Society's AGM in June 2025. The Committee monitors the independence and objectivity of the external auditors, including BDO's partner rotation plans. Rupert Livingstone has remained as senior statutory auditor. In line with the revised FRC Ethical Standards 2024, the external auditors did not provide any non-audit services in 2025 and the prior year.

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 reasonable assurance over the effectiveness of internal controls. The Committee also considered and approved the scope of work for internal audit, with regard to management activities and a three year strategy for internal audit coverage of key business areas.

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.

The Committee oversaw the assessment of sources of assurance over key controls for the Society's headline risk, and documentation of the three lines of defence in operation (Management controls, Risk and Compliance oversight and internal audit)

Other significant matters

Other significant matters considered during 2025:

1. Reviewed the annual Money Laundering Reporting Officer's Report for the Society;
2. Reviewed the annual Corporation Tax computations for the Society and its subsidiaries; and
3. Approved the annual whistleblowing policy and reviewed its effectiveness.

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 and provide independent challenge on strategic risks and opportunities.

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

Committee Membership

There were five meetings in the year as follows:

	26 Feb	11 Mar	12 Jun	21 Oct	19 Nov
N Tinegate (Chair and Non-Executive Director)	✓	✓	✓	✓	✓
S Pashby (Non-Executive Director and committee member until retirement on 7th July 2025)	✓	✓	✓	n/a	n/a
C Mills (Non-Executive Director)	✗	✓	✓	✓	✓
O Laird¹ (Non-Executive Director)	✓	✓	✓	✓	✓
A McKinna (Non-Executive Director)	n/a	n/a	n/a	n/a	○
M Myers (Non-Executive Director)	n/a	○	n/a	n/a	○

○: Attended as observer

¹ Notified Non-Executive Director 1st January 2025

n/a: Attendance is not mandated for non-committee members

Significant matters considered by the Committee

During 2025, the Committee:

1. Provided close focus and facilitated Board discussions on material risks impacting the Society;
2. Reviewed the outputs from the Society's Risk Management Framework;
3. Played an active role in challenging and helping to shape the 2025 ORSA with recommendation for 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. Provide scrutiny on key risks for new partnerships, reinsurance arrangements and product launches by the Society and its strategic partners; and
5. Reviewed the risk profile of the Society's investments and ensured they are managed within the risk appetite set by the Board.

Fair Members Benefit Committee

Key Responsibilities

The purpose of the Fair Members Benefit Committee is to make recommendations to the Board to ensure that fair outcomes are achieved for all members and policyholders, in particular with-profits members, having regard to their characteristics and fair expectations.

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

Committee Membership

There were five meetings in the year as follows. The meetings were also attended by the Society's With-Profits Actuary.

	15 Jan	11 Mar	17 Jun	10 Sep	18 Nov
C Mills (Chair and Non-Executive Director)	✓	✓	✓	✓	✓
M Myers (Non-Executive Director)	✓	✓	✓	✓	✓
M Jarrold (Senior Management team)	✓	✓	✓	✓	✓
N Hossain (Senior Management team)	✓	✓	✓	✓	✓
N Tinegate (Non-Executive Director)	✓	✓	✓	✓	✓

Significant matters considered by the Committee

Significant items considered during 2025:

1. Reviewed Management's reporting of the Consumer Duty outcomes, and the Society's development to its existing Consumer Duty reporting;
2. Considered the proposal for new partnerships and new products, taking into account the views of the With-Profits Actuary and the views of the Board Risk Committee;
3. Reviewed the With-Profits Actuary reports on PPFM compliance and the exercise of discretion;
4. Reviewed the With-Profits Actuary report and Board report to with-profits policyholders;
5. Reviewed the investment performance of the Society's investments and the suitability of assets backing the with-profits fund; and
6. Considered and recommended to the Board the bonus rates for with-profits and Holloway policyholders.

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 four meetings in the year as follows:

	14 Jan	17 Jun	9 Sep	18 Nov
M Myers (Chair and Non-Executive Director)	✓	✓	✓	✓
C Mills (Non-Executive Director)	✓	✓	✓	✓
A McKinna (Non-Executive Director)	✓	✓	✓	✓

Significant matters considered by the Committee

Significant items considered during 2025:

1. Oversaw the appointment of the Society's new CEO, supported by an external partner. The Committee interviewed the shortlisted candidates.
2. Reviewed progress on the Society's climate change plans and details are set out on pages 9-11;
3. Reviewed the Society's initiative on diversity, equality and inclusion and details are set out on page 8;
4. Oversight and review of the development of the Society's Governance and Management Responsibilities Map;
5. Reviewed the Board and Senior Management function succession plan and the talent management framework;
6. Reviewed the Board Diversity Policy;
7. Reviewed the effectiveness of operational and organisational structures in supporting strategic business objectives and talent management;
8. Appraised the performance of the non-executive directors and the Board Committees against their objectives.

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 recommends to the Board approval of the overall remuneration package for the Chief Executive Officer. The Committee provides oversight of how the Society's remuneration policy and practices affect the Society's engagement with its employees. The Committee oversees that the engagement and retention activities undertaken within the Society are inclusive and aligned to the different needs and requirements of its people.

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

Committee Membership

The Chair, Alison McKinna has served as a member of the remuneration committee for at least twelve months prior to her appointment as chair of the committee in the prior year.

There were four meetings in the year as follows:

	14 Jan	17 Jun	16 Sep	13 Nov
A McKinna (Chair)	✓	✓	✓	✓
S Pashby (Non-Executive Director and committee member until retirement on 7th July 2025)	✓	✓	n/a	n/a
M Myers (Non-Executive Director)	✓	✓	✓	✓
O Laird (Non-Executive Director and committee member from 7th July 2025)	n/a	n/a	✓	✓

n/a: Attendance is not mandated for non-committee members

Significant matters considered by the Committee

Significant items considered during 2025:

1. Approved the remuneration of the new Chief Executive and reviewed the balance and structure of the remuneration package taking into consideration external advice and industry benchmarking;
2. Oversaw and recommended to the Board the approval of the Remuneration and Engagement policy effective for 2025;
3. Recommended to the Board the approval of the bonus of the Chief Executive and the Executive Directors paid in February 2025 for the 2024 financial year, having considered the performance against KPIs for the 2024 financial year;
4. Set out the Chief Executive's objectives and KPIs for the 2025 financial year;
5. Monitoring impact of external factors on the Society's remuneration, recruitment and engagement strategy.

The details of the remuneration for the directors in 2025 are set out in the Directors' Remuneration Report on pages 32 to 33.

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.

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

Executive Directors' Remuneration

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

- **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 a benchmarking exercise that is conducted periodically.
- **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 annual 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. The timings of payment and amount paid as bonus is 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 the Society or its members.
- **Pension**
The Executive Directors participate in the Group's defined contribution pension scheme, or until 31 December 2025, had the option to participate in alternative personal pension arrangements as approved by the Committee. Contribution entitlements can be paid in cash instead when pension contribution taxation limits are exceeded, at no further cost to the Society and subject to approval by the Committee.
- **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 periodically. The fees are based on current market rates and the level of time commitment required to fulfil their duties; an additional fee is paid for Committee Chair responsibilities.

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 2025

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 ¹	Total 2025	Total 2024
	£	£	£	£	£	£
Executives						
A M O'Dea ⁴	275,096	68,499	22,902	3,270	369,767	373,158
C Critchlow	178,466	44,438	21,329	16,706	260,939	261,584
S Chivers	160,650	40,002	14,968	1,252	216,872	219,368
	614,212	152,939	59,199	21,228	847,578	854,110
Non-Executives						
M Myers ⁵	61,200	-	-	3,633	64,833	39,847
A McKinna	39,799	-	-	1,001	40,800	35,001
C Mills	36,799	-	-	702	37,501	36,804
N Tinegate	36,799	-	-	934	37,733	30,186
O Laird ²	33,299	-	-	559	33,858	-
S Pashby ³	19,249	-	-	542	19,791	40,181
N Wynn-Evans ⁶	-	-	-	-	-	62,800
	227,145	-	-	7,371	234,516	244,819
TOTAL	841,357	152,939	59,199	28,599	1,082,094	1,098,929

¹ 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.

² Appointed as Non-Executive Director on 7th July 2025

³ Retired on 7th July 2025

⁴ Stepped down on 31st December 2025

⁵ Appointed as Chair on 1st January 2025

⁶ Board Chair until retirement on 31st December 2024



Alison McKinna

Remuneration & Engagement Committee Chair
1st April 2026

Independent Auditor's Report to the Members of the Shepherds Friendly Society Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and the Society's affairs as at 31st December 2025 and of the Group's and the Society's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements of The Shepherds Friendly Society Limited (the 'Society') and its subsidiaries (the 'Group') for the year ended 31st December 2025 which comprise the Group and Society Statements of Comprehensive Income, the Group and Society Statements of Financial Position, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and 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 the FRC's Ethical Standard were not provided to the Group and Society and we remain independent of the Society and Group in conducting our audit.

Conclusions Relating to Going Concern

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

- Challenging the appropriateness of the Directors' assumptions and judgements made in their budgets and forecasts. In doing so we agreed key assumptions such as forecast growth to historic actuals, relevant market data and our general commercial and sector experience and considered the historical accuracy of the Directors forecasts;

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the 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. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and the Society's ability to continue as a going concern.

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

Overview

Key audit matters ("KAM")	2025	2024
Valuation of technical provisions	x	x
Materiality	Group financial statements as a whole. £650,000 (2024: £624,000) based on 3% (2024: 3%) of Fund for Future Appropriations (2024: Fund for Future Appropriations)	

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, the applicable financial reporting framework and the Group's system of internal control. We identified and assessed the risks of material misstatement of the Group financial statements including with respect to the consolidation process. We then applied professional judgement to focus our audit procedures on the areas that posed the greatest risks to the Group financial statements. We continually assessed risks throughout our audit, revising the risks where necessary, with the aim of reducing the group risk of material misstatement to an acceptable level, in order to provide a basis for our opinion.

Components in scope

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

As part of performing our Group audit, we have determined the Society as the only component in scope. This is on the basis that all of the Group's risks of material misstatement relate only to the Society.

For the component in scope, we used a combination of risk assessment procedures and further audit procedures to obtain sufficient appropriate evidence. These further audit procedures included procedures on the entire financial information of the component, including performing substantive procedures and tests of operating effectiveness of controls.

Procedures performed at the component level

We performed procedures to respond to group risks of material misstatement at the component level that included the following.

Component Name	Entity	Group Audit Scope
The Shepherds Friendly Society Limited	The Shepherds Friendly Society Limited	Statutory audit and procedures on the entire financial information of the component.

The Group engagement team has performed all procedures directly, and has not involved component auditors in the Group audit.

Changes from the prior year

There are no significant changes in the group audit scope from the prior year.

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.

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

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	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Materiality	650	624	649	623
Basis for determining materiality	3% (2024: 3%) of Fund for Future Appropriations			
Rationale for the benchmark applied	We determined Fund for Future Appropriations to be the most appropriate benchmark, as it reflects a key measure of the performance of a mutual friendly society and is used to assess the level of free reserves and in determining solvency.			
Performance materiality	487	468	486	467
Basis for determining performance materiality	75% of materiality			
Rationale for the percentage applied for performance materiality	In determining performance materiality, we considered factors such as our assessment of the Group and Society's overall control environment, and expected total value of known and likely misstatements, based on past experience.			

Component performance materiality

Apart from the Society whose materiality and performance materiality are set out above, no other component materiality has been determined for the purposes of our Group audit opinion.

Reporting threshold

We agreed with the Audit & Compliance Committee that we would report to them all individual audit differences in excess of £30,000 (2024: £12,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Strategic report and Directors' report have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. <p>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 and Directors' report.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept by the Society; or the Society financial statements are not in agreement with the accounting records; 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, 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.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and management.

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

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

Non-compliance with laws and regulations

Based on:

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

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

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

Our procedures in respect of the above included:

- Enquires of management whether there were any litigations and claims;
- Review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory authorities for any instances of non-compliance with laws and regulations; and
- Review of financial statement disclosures and agreeing to supporting documentation.

Irregularities including fraud

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

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's and Society's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meetings of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

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

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met defined risk criteria, by agreeing to supporting documentation;
- Assessment of substantive testing performed for each Financial Statement Area for indicators of fraud; and
- Assessing significant estimates made by management for bias (refer to the key audit matters section for procedures performed).

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

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Other matters which we are required to address

We were appointed by Members of the Society, following recommendation of the Audit & Compliance Committee, on 21st September 2010 to audit the financial statements for the period ended 31st December 2010 and subsequent financial periods.

Our total uninterrupted period of engagement is 16 years, covering the periods ended 31st December 2010 to 31st December 2025.

Our audit opinion is consistent with the additional report to the Audit & Compliance Committee.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed

**Rupert Livingstone, (Senior Statutory Auditor)**

For and on behalf of BDO LLP, Statutory Auditor
London, UK
2nd April 2026

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

Statement of Comprehensive Income for year ended 31st December 2025

Technical Account: Long-Term Business	Notes	Group		Society	
		2025 £'000	2024 £'000	2025 £'000	2024 £'000
Income					
Earned Premiums, net of reinsurance					
Gross Premiums written	4	59,665	46,862	59,665	46,862
Outward Reinsurance premiums		(9,046)	(4,864)	(9,046)	(4,864)
Net Premiums		50,619	41,998	50,619	41,998
Investment Income					
Other Investments	5	258	317	258	322
Gains/(Losses) on the realisation of Investments	5	1,218	550	1,218	550
Unrealised gains/(losses) on Investments	5	18,636	11,808	18,636	11,808
		20,112	12,675	20,112	12,680
Other technical income	6	191	38	191	38
Total technical income		70,922	54,711	70,922	54,716
Expenditure					
Claims incurred, net of reinsurance					
Claims paid	7	24,521	21,508	24,521	21,508
Change in the provision for claims	7	36	288	36	228
		24,557	21,736	24,557	21,736
Changes in technical provisions, net of reinsurance					
Movement on long-term business provision net of reinsurance	19(a)	10,521	7,980	10,521	7,980
Movement on provision for Linked Liabilities Investment Contracts	19(b)	9,693	3,159	9,693	3,159
Movement on other technical provisions	19(c)	2,798	1,955	2,798	1,955
		23,012	13,094	23,012	13,094
Net operating expenses					
Other operating expenses	8	22,308	22,012	22,308	22,012
Investment expenses and charges	10	209	186	209	186
		22,517	22,198	22,517	22,198
Tax on other technical net income	12	-	-	-	-
Total technical expenditure		70,086	57,028	70,086	57,028
Surplus/(Deficit) of income over expenditure		836	(2,317)	836	(2,312)
Transfer (to)/from Fund for Future Appropriations	18	(836)	2,317	(836)	2,312
Balance on technical account - long term business		-	-	-	-
Other comprehensive income:					
Items that will not be reclassified to technical account					
Actuarial gain on pension scheme	23	28	325	28	325
Transfer to Fund for Future Appropriations	18	(28)	(325)	(28)	(325)
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 45 to 70 form part of these financial statements.

Statement of Financial Position as at 31st December 2025

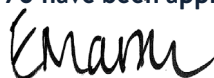
	Notes	Group		Society	
		2025 £'000	2024 £'000	2025 £'000	2024 £'000
Assets					
Investments					
Other Financial Investments at fair value	13(a)	128,600	101,486	128,600	101,486
		<u>128,600</u>	<u>101,486</u>	<u>128,600</u>	<u>101,486</u>
Assets held to cover linked liabilities	13(a)	52,669	44,363	52,669	44,363
		181,269	145,849	181,269	145,849
Debtors: amounts receivable within one year					
Debtors arising out of direct insurance operations	14	32	37	32	37
Other Debtors	14	2,286	2,033	2,286	2,033
		<u>2,318</u>	<u>2,070</u>	<u>2,318</u>	<u>2,070</u>
Intangible assets	16	559	696	559	696
Other Assets					
Tangible assets	15	233	283	233	283
Cash at bank and in hand	17	8,398	14,806	8,398	14,806
		<u>8,631</u>	<u>15,089</u>	<u>8,631</u>	<u>15,089</u>
Prepayments and accrued income		357	323	357	323
Long-Term Business Provision for protection benefit	19(a)	80,040	70,302	80,040	70,302
Reinsurers' share of technical provisions	19(a)	14,825	14,231	14,825	14,231
Pension scheme asset	23	948	866	948	866
Total Assets		<u>288,947</u>	<u>249,426</u>	<u>288,947</u>	<u>249,426</u>
Liabilities					
Fund for Future appropriations	18	21,672	20,808	21,672	20,808
Technical Provisions					
Long-Term Business Provision for benefits excluding protection	19(a)	132,334	113,250	132,334	113,250
Reinsurers' share of technical provisions	19(a)	5,994	4,225	5,994	4,225
Technical Provision for Linked Liabilities - Investment Contracts	19(b)	52,669	44,363	52,669	44,363
Other technical provisions	19(c)	68,882	60,242	68,882	60,242
Claims outstanding	19(d)	2,347	1,784	2,347	1,784
		<u>262,226</u>	<u>223,864</u>	<u>262,226</u>	<u>223,864</u>
Provisions for other risks					
Other provisions	20	200	-	200	-
		<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>
Creditors					
Creditors arising out of direct insurance operations		732	323	732	323
Creditors arising out of reinsurance operations		687	1,186	687	1,186
Other creditors, including taxation and social security	21	848	981	848	981
		<u>2,267</u>	<u>2,490</u>	<u>2,267</u>	<u>2,490</u>
Accruals		2,582	2,264	2,582	2,264
Total Liabilities		<u>288,947</u>	<u>249,426</u>	<u>288,947</u>	<u>249,426</u>

The attached notes on pages 45 to 70 form part of these financial statements.

The financial statements on pages 43 to 70 have been approved by the Board on 1st April 2026.



M Myers
Chair



E Martin
Company Secretary

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 18.

2 Significant Accounting Policies

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

(a) Basis of Preparation

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

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. In accordance with FRS 103 Insurance Contracts, the Group and the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

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

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

(b) Going Concern

After making enquiries and reviewing the going concern assessment for the Society, the Directors have a reasonable expectation that the Group and the Society have adequate resources to continue in operational existence for the foreseeable future. The Group and the Society therefore continues to adopt the going concern basis in preparing its financial statements.

(c) Basis of Consolidation

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

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

3 Critical Accounting Judgements and Estimates

(a) Judgements

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

(i) Contract classification

The classification of contracts on initial recognition requires an assessment of whether significant insurance risk has been transferred to the Group. The assessment is based on the amount payable when the insured event occurs and whether the amount payable is significantly more than when the insured event has not occurred. Based on our assessment, products listed in Note 19(a) have been classified as "insurance contracts" or "participating investment contracts".

(b) Estimates

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates. This is particularly relevant to the following:

(i) Valuation of intangible assets

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

(ii) Long-term business provisions

The valuation of participating contract liabilities and insurance liabilities are based upon assumptions and methodology that reflect the best estimate at the time. Note 19(a) sets out the assumptions underlying the valuations. The assumptions are based on recent observed experience to 31st December 2025.

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 the Prudential Regulation Authority (PRA) and the regulators' specific risk-free rates that are referenced to the Sterling Overnight Index Average ("SONIA"), and adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

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

(iii) Pension scheme valuation

Pension plan valuation are based on appropriate valuation assumptions. These assumptions include an appropriate discount rate, the levels of salary escalation, price inflation and mortality rates. Further details are contained in note 23 to these financial statements.

4 Earned Premium Analysis

Insurance Contracts and Participating Investment Contracts

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

4 Earned Premium Analysis (Continued)
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 and other technical provisions in the Statement of Financial Position.

	2025 £'000	2025 £'000	2024 £'000	2024 £'000
Society and Group				
Regular Premiums				
Insurance contracts	20,046		16,664	
Participating investment contracts	<u>19,459</u>		<u>15,164</u>	
		39,505		31,828
Single Premiums				
Participating investment contracts	<u>20,160</u>		<u>15,034</u>	
		20,160		15,034
Gross premium written		59,665		46,862
Outward reinsurance premiums on insurance contracts		<u>(9,046)</u>		<u>(4,864)</u>
Earned Premiums		<u>50,619</u>		<u>41,998</u>
Of which earned in:				
United Kingdom		50,615		41,993
Republic of Ireland		4		5

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 £13,147,000 in 2025 (2024: £26,925,000) were received in relation to non-participating investment contracts and other technical provisions.

5 Investment income

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

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Other investment income	258	317	258	322
Realised gains on financial assets disposed during the year	1,218	550	1,218	550
Unrealised fair value gains/(losses) on revaluation of financial assets	18,636	11,808	18,636	11,808
	20,112	12,675	20,112	12,680

6 Other technical income

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

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Introducer fee income	29	17	29	17
Other income	162	21	162	21
	191	38	191	38

7 Claims incurred

Insurance Contracts and Participating Investment Contracts

Maturity claims and regular annuity payments are accounted for when due for payment. Surrenders and withdrawals 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 and other technical provisions are accounted for as deductions from the carrying value of the liability in the Statement of Financial Position.

7 Claims incurred (Continued)

	2025	2025	2025	2024	2024	2024
	Gross £'000	Reinsurers' share £'000	Net £'000	Gross £'000	Reinsurers' share £'000	Net £'000
Society and Group						
Claims paid						
Insurance contracts	8,903	(3,872)	5,031	5,551	(1,760)	3,791
Participating investment contracts	19,490	-	19,490	17,717	-	17,717
	<u>28,393</u>	<u>(3,872)</u>	<u>24,521</u>	<u>23,268</u>	<u>(1,760)</u>	<u>21,508</u>
Change in provisions for claims						
Insurance contracts	133	(106)	27	218	(37)	181
Participating investment contracts	9	-	9	47	-	47
	<u>142</u>	<u>(106)</u>	<u>36</u>	<u>265</u>	<u>(37)</u>	<u>228</u>
Claims incurred						
Insurance contracts	9,036	(3,978)	5,058	5,769	(1,797)	3,972
Participating investment contracts	19,499	-	19,499	17,764	-	17,764
	<u>28,535</u>	<u>(3,978)</u>	<u>24,557</u>	<u>23,533</u>	<u>(1,797)</u>	<u>21,736</u>

£8,164,000 (2024: £7,402,000) was paid in relation to non-participating investment contracts and other technical provisions.

8 Society and Group Net Operating Expenses

Acquisition costs incurred in issuing insurance contracts are not deferred as the contracts are written in a with-profits fund.

Reinsurance commission received to cover acquisition costs on insurance contracts are accounted for when due from the reinsurer.

	Society and Group	
	2025 £'000	2024 £'000
Acquisition costs	20,363	19,820
Administration expenses	3,353	3,082
Reinsurance commission	(1,408)	(890)
	<u>22,308</u>	<u>22,012</u>

Included in the operating expenses are:

	Society and Group	
	2025 £'000	2024 £'000
Auditor's remuneration for financial statements audit services, excluding VAT	162	151
	<u>162</u>	<u>151</u>

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

9 Staff Costs

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

	Group and Society	
	2025 £'000	2024 £'000
Board Members	9	9
Staff - Acquisition	79	67
Staff - Administration	34	29
	122	105

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

	Group and Society	
	2025 £'000	2024 £'000
Wages and salaries	6,996	6,143
Social security costs	883	722
Pension costs	534	671
	8,413	7,536

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 32 to 33.

10 Investment expenses and charges

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

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Investment management fees	209	186	209	186
	209	186	209	186

11 Related Party Transactions

Transactions with group undertakings

Advantage has been taken of the exemption under FRS 102 not to disclose transactions with entities that are part of the Society's group. None of the Society's directors are members of the Society.

Appointed Actuary

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

Mr C Critchlow (Chief Actuary)

1. Mr C Critchlow BSc FIA was the Chief Actuary and an Executive Director for the Society in the financial year ended 31st December 2025 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.

11 Related Party Transactions (Continued)

Mrs C Spinks (With-Profits Actuary)

1. Mrs C Spinks FIA was the With-Profits Actuary in the financial year ended 31st December 2025 and the prior year. Mrs Spinks was an employee of Broadstone Limited in 2025 and in the prior year. Neither Mrs Spinks, her husband or her children were members of the Society at any time during 2025 and the prior year.
2. Neither Mrs Spinks, her husband or children had any financial interest in any transaction with the Society during 2025 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 Broadstone Limited for the services provided. The amount paid to Broadstone Limited for her professional services amounted to £30,330 (2024: £32,990). No other benefits, emoluments, pensions or compensation was paid to her.
4. Mrs Spinks did not receive, and will not receive, any other financial benefit from the Society.

12 Taxation

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

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

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

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Corporation Tax				
Tax (credit)	-	-	-	-
Deferred Tax				
Timing differences, origination and reversal	-	-	-	-
Total tax (credit)	-	-	-	-

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% (2024: 20%). The applicable UK corporation tax rate is 25% for the subsidiaries (2024: 25%).

Financial Advice Network Limited unrecognised deferred tax asset is £nil (2024: £nil).

As at 31st December 2025, the Group did not hold any provisions for uncertain tax positions. As announced during the Autumn Budget 2025, the basic rate of income tax on savings will increase from 20% to 22% from April 2027, which is expected to apply to the Society's taxable business. Once this has been substantively enacted, deferred tax in the Society will be measured using the effective rate of 22%.

12 Taxation (Continued)
Reconciliation of Current Year Tax Charge

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Suplus/(Deficit) of income over expenditure before tax	836	(2,317)	836	(2,312)
Tax on surplus/(deficit) at 25.5% (2024: 25.5%)	213	(591)	213	(589)
Factors affecting tax charge:				
Accounting profit not subject to corporation tax	(213)	591	(213)	589
Non-taxable income	-	-	-	-
Accelerated capital allowances	-	-	-	-
Movement in unprovided deferred tax asset	-	-	-	-
Prior year tax adjustment	-	-	-	-
Total tax credit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Society has a net unrecognised deferred tax asset of £1,478,000 (2024: £1,473,000) which is made up of deductible expenses carried forward and unrealised gains. It is not currently considered probable that this deferred tax asset will be utilised and therefore the deferred tax asset continues to not be recognised.

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

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

Assets held to cover linked 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 and pooled investments, market observable inputs are used wherever possible. In the absence of an active market, estimation of fair values is achieved using valuation techniques that reference to recent arm's length transaction for identical assets.

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

	Cost	Market Valuation	Cost	Market Valuation
	2025 £'000	2025 £'000	2024 £'000	2024 £'000
Pooled investments	108,629	128,600	91,069	101,486
	<u>108,629</u>	<u>128,600</u>	<u>91,069</u>	<u>101,486</u>
Assets held to cover Linked Liabilities	23,502	52,669	24,125	44,363
	<u>132,131</u>	<u>181,269</u>	<u>115,194</u>	<u>145,849</u>

See note 13(d) for fair value measurement techniques applied to financial assets. Total proceeds received from disposal of investments in the year was £1,841,000 and the realised gains on disposal was £1,218,000.

13 Investments (Continued)
(b) Investment in Subsidiaries (Society)

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

The Society owns 100% of the ordinary share capital of Financial Advice Network Limited and Financial Advice Website Limited. Both subsidiaries are non-trading as at 31st December 2025 and the prior year, and 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 31st December 2025 and the prior year.

	2025 £'000	2024 £'000
Shares in subsidiaries	-	-

(c) Derivative Financial Instruments (Group and Society)

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

The initial cash margin at the balance sheet date was £1,287,825 (2024: £1,359,540), which is included in "Amount due from brokers" (note 14).

The net variation margin payable by the Group and the Society was £20,790 (2024: £78,835 payable), being the amount owed for the movement on the last business day of 2025 and which was settled in January 2026. This balance is also included in "Amount due from brokers" (note 14).

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

	Group and Society	
	2025 £'000	2024 £'000
Contract notional amount	21,106	23,010
	<u>21,106</u>	<u>23,010</u>

(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 that make 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.

13 Investments (Continued)
(d) Fair Value Measurement (Continued)

	Group and Society			Group and Society		
	2025 Level 1 £'000	2025 Level 2 £'000	2025 Level 3 £'000	2024 Level 1 £'000	2024 Level 2 £'000	2024 Level 3 £'000
Financial Assets						
Assets held to cover linked liabilities	52,650	19	-	44,363	-	-
Pooled Investments	-	128,600	-	-	101,486	-
	<u>52,650</u>	<u>128,619</u>	<u>-</u>	<u>44,363</u>	<u>101,486</u>	<u>-</u>

14 Debtors: Amounts receivable within one year

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk on insurance contracts with reinsurance providers. Reinsurance contracts that meet the classification requirements for insurance contracts set out in note 19 are classified as reinsurance contracts held.

Debtors arising out of reinsurance operations represent short-term payments due from reinsurers. The reinsurers' share of technical provisions are longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts (note 19). They are measured on a consistent basis to the reinsured insurance contracts.

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Debtors arising out of direct insurance operations	32	37	32	37
Amount due from brokers (note 13c)	1,267	1,281	1,267	1,281
Other debtors	1,019	752	1,019	752
	<u>2,318</u>	<u>2,070</u>	<u>2,318</u>	<u>2,070</u>

Other debtors include clawback commission debtors which are stated after provisions for impairment of £59,000 (2024: £815,000).

15 Tangible assets

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

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

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

15 Tangible assets (Continued)

	Society Property Improvement	Society Fixture & Fittings	Society Total	Group Total
	£'000	£'000	£'000	£'000
Cost				
At 1st January 2025	392	381	773	785
Additions	-	15	15	15
Disposals	-	-	-	-
At 31st December 2025	392	396	788	800
Depreciation				
At 1st January 2025	169	321	490	502
Provided for in the year	27	38	65	65
Disposals	-	-	-	-
At 31st December 2025	196	359	555	567
Net book value				
31st December 2025	196	37	233	233
31st December 2024	223	60	283	283

There are no assets acquired during 2025 using a finance lease arrangement (2024: £nil).

16 Intangible assets

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

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

	Society Software	Society Total	Group Total
	£'000	£'000	£'000
Cost			
At 1st January 2025	3,511	3,511	3,778
Additions	333	333	333
Disposals	-	-	-
At 31st December 2025	3,844	3,844	4,111
Depreciation			
At 1st January 2025	2,815	2,815	3,082
Provided for in the year	470	470	470
Disposals	-	-	-
At 31st December 2025	3,285	3,285	3,552
Net book value			
31st December 2025	559	559	559
31st December 2024	696	696	696

17 Cash at bank and in hand

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

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Cash at bank and in hand	4,603	8,148	4,603	8,148
Cash equivalents	3,795	6,658	3,795	6,658
	<u>8,398</u>	<u>14,806</u>	<u>8,398</u>	<u>14,806</u>

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

The Fund for Future Appropriations represents the excess of assets over and above the technical provisions 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.

	Group			
	2025 £'000	2025 £'000	2024 £'000	2024 £'000
Fund for Future Appropriations (Group)				
Balance at 1st January		20,808		22,800
Transfer from/(to) Technical Account	836		(2,317)	
Transfer from Other Comprehensive Income	28		325	
		864		(1,992)
Balance at 31st December		<u>21,672</u>		<u>20,808</u>

	Society			
	2025 £'000	2025 £'000	2024 £'000	2024 £'000
Fund for Future Appropriations (Society)				
Balance at 1st January		20,808		22,795
Transfer from/(to) Technical Account	836		(2,312)	
Transfer from Other Comprehensive Income	28		325	
		864		(1,987)
Balance at 31st December		<u>21,672</u>		<u>20,808</u>

19 Technical Provisions (Group and Society)

Contract classification

The Group classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts. The contract classification has been determined by assessing contracts at inception as required under FRS 103. See note 3(a).

A discretionary participation feature is a contractual right held by the policyholder to receive additional payments as a supplement to guaranteed benefits:

- that are likely to be a significant portion of the total contractual payments; and
- whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
 - the performance of a specified pool of contracts, or a specified type of contract, or
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company that issues the contract.

Such contracts that have a discretionary participation feature are more commonly known as ‘with-profits’ or ‘participating’ contracts.

The Group has carried out its assessment by considering homogenous product classes rather than reviewing individual contracts as each class has common product features including levels of insurance risk. Based on our assessment, investment products listed in Note 19(a) have been classified as “participating investment contracts”. The unit-linked products and fixed rate bond product are classified as “non-participating investment contracts”.

Long-term Business Provision

The long-term business provision is approved 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 UK Firms Technical Provisions Instrument 2025. The long-term business provision on a Solvency UK 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 UK capital until all the contracts are settled. The rate of interest used to discount the expected future cash flows for the valuation is prescribed by regulation.

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

Provision for Linked Liabilities

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

Other Technical Provision

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

19 Technical Provisions (Group and Society) (Continued)
(a) Long-term Business Provision

The following sets out the assumptions underlying the valuation of the Group's and Society's long-term business provision.

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

The key aspects of the methods recommended for the valuation 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 (SIPP) and other IP contracts	Gross premium with members' accounts (where relevant) valued equal to asset shares plus cost of guarantees and sickness benefit valued using an inception/recovery average weeks claim approach.
	The pure IP business is net of reinsurance where appropriate. Reserves for the closed book of Premier Protect business are calculated using individual case estimates.

(ii) Discount Rate of Interest

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

(iii) Expenses

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

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

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

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

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

(iv) Mortality

This is the risk that policyholders live for longer than expected resulting in increased liabilities for life insurance policies. Mortality rates are set by reference to the standard actuarial mortality tables AXCO0 by class of business. Adjustments are made to reflect the variations in experience for each class of business.

(v) Morbidity

This is the risk that policyholders make claims more frequently or for a longer period of time than expected resulting in increased liabilities for protection policies. Morbidity rates are set with reference to the standard actuarial morbidity tables CMIR12 with adjustments made to fit historic and future expected experiences.

19 Technical Provisions (Group and Society) (Continued)
(vi) Persistency

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

(vii) Options and Guarantees

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

	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	2025	2025	2025	2024	2024	2024
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st January	42,948	(10,006)	32,942	33,760	(8,798)	24,962
New business	16,780	1,573	18,353	5,151	1,147	6,298
Experience variation	1,406	(865)	541	2,772	(1,000)	1,772
Changes in assumptions	2,282	493	2,775	2,149	(1,041)	1,108
Changes in methodology	(11,899)	-	(11,899)	5	-	5
Changes in risk margin	(3)	-	(3)	(978)	-	(978)
Other	780	(26)	754	89	(314)	(225)
Balance at 31st December	<u>52,294</u>	<u>(8,831)</u>	<u>43,463</u>	<u>42,948</u>	<u>(10,006)</u>	<u>32,942</u>
Balance at 31st December comprises:						
Long-term business provision for protection benefit and reinsurers' share	(80,040)	5,994	(74,046)	(70,302)	4,225	(66,077)
Long-term business provision for benefits excluding protection and reinsurers' share	132,334	(14,825)	117,509	113,250	(14,231)	99,019
	<u>52,294</u>	<u>(8,831)</u>	<u>43,463</u>	<u>42,948</u>	<u>(10,006)</u>	<u>32,942</u>

The Society has a reinsurance arrangement for its Over 50s Life Insurance and Income Protection book of business.

Further details on the movement in the year and its impact on the FFA is provided in the Strategic Report on page 3.

19 Technical Provisions (Group and Society) (Continued)
(b) Linked Liabilities - Investment contracts

	2025 £'000	2025 £'000	2024 £'000	2024 £'000
Balance at 1st January		44,363		41,392
Net contributions from members		(1,387)		(188)
Gains on assets held for linked liabilities	10,413		3,834	
Fees deducted	(720)		(675)	
Movement on linked liabilities in Technical Account		9,693		3,159
Balance at 31st December		52,669		44,363

(c) Other technical provisions

	2025 £'000	2024 £'000
Balance at 1st January	60,242	44,158
Net contributions from members	5,842	14,129
Interest attributed to policyholders in the year	2,798	1,955
Balance at 31st December	68,882	60,242

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

(d) Claims outstanding

	2025 £'000	2024 £'000
Gross amount	3,312	2,643
Reinsurers' share	(965)	(859)
Balance at 31st December	2,347	1,784

20 Other provisions and Contingent Liability

A provision has been recognised in respect of an ongoing claim brought against the Society. The Society has potential further exposure dependent on rulings and judgements to be made by external parties later in 2026. Based on legal advice received, the Society considers that an adverse outcome in these matters could give rise to further liabilities, the estimates of which is not disclosed as it is considered to be prejudicial to do so.

	Group & Society
	2025 £'000
Balance at 1st January	-
Additions	200
Amounts Utilised	-
Released	-
Balance at 31st December	200

21 Other creditors, including taxation and social security

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Amounts due to members	35	46	35	46
Taxation and social security	283	248	283	248
Other creditors	530	687	530	687
	848	981	848	981

22 Operating Rent and Lease Commitments

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

	Group and Society	
	2025 £'000	2024 £'000
Total payable under non-cancellable operating leases are as follows:		
Amounts falling due < 1 year	181	175
Amounts falling due 2 - 5 years	708	697
Amounts falling due 5 years +	388	560
	1,277	1,432

Other operating expenses in the Statement of Comprehensive Income includes operating lease payments of £189,000 for 2025 (2024: £138,000).

23 Pension Scheme Obligations (Group and Society)

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

The Group and Society also operate a Final Salary defined benefit pension scheme that has been closed to new entrants since 1st May 2005. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The pension scheme closed to member contributions on 8th January 2018 and no benefits were accrued after 7th January 2018.

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

As at 31st December 2025, the present value of the defined benefit obligation is less than the fair value of the scheme assets resulting in a net surplus. The Trust Deed of the Scheme denotes that the Society has rights to a refund of a surplus once all member benefits have been settled and therefore the surplus can be recognised in the Statement of Financial Position.

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

23 Pension Scheme Obligations (Group and Society) (Continued)

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;
- 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 20th 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 5th April 2021. The results have been updated to 31st December 2025 by a qualified independent actuary. The assumptions used were as follows. The actuarial assumptions can change depending on fluctuations in inflation and bond market conditions.

	Year ended	Year ended
	31st December 2025	31st December 2024
Actuarial assumptions		
Discount Rate	5.60% pa	5.50% pa
Retail price inflation	2.90% pa	3.20% pa
Consumer price inflation	2.30% pa	2.70% pa
Rate of increase of pensions in payment		
- Post 88 GMP	2.00% pa	2.30% pa
- Post 97 pension	2.80% pa	3.10% pa
- Post 07 pension	2.10% pa	2.10% pa
Rate of increase for deferred pensioners	2.30% pa	2.70% pa
Demographic assumptions		
Mortality (Pre retirement)	As per post retirement	As per post retirement
Mortality (Post retirement)	S4PA_M CMI_2024_M/ F [1.00%]	S4PA_M CMI_2023_M/ F [1.00%]

	2025		2024	
Life Expectancies	Male	Female	Male	Female
Life expectancy for an individual aged 65 in the year	20.9 years	23.4 years	20.6 years	23.3 years
Life expectancy at age 65 for an individual aged 45 in the year	21.9 years	24.5 years	21.6 years	24.4 years

23 Pension Scheme Obligations (Group and Society) (Continued)
(b) Sensitivity of key assumptions

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

	Increase in defined benefit obligation	
	2025 £'000	2024 £'000
100 basis points decrease in discount rate	286	305
100 basis points increase in RPI	72	62
100 basis points increase in CPI	75	75

(c) Assets

The assets of the Scheme are invested as follows:

	31st December 2025		31st December 2024	
	Market Value £'000	% of total Scheme assets	Market Value £'000	% of total Scheme assets
Asset Class				
Gilts	1,263	36%	730	21%
Cash	114	3%	140	4%
Diversified Growth Funds	849	24%	1,251	36%
Diversified Credit Funds	652	19%	768	22%
Equities	648	18%	565	17%
Total	3,526	100%	3,454	100%

The actual return on the assets over year was a gain of £247,000 (2024: gain of £182,000).

(d) Reconciliation to the Statement of Financial Position

	Year ended	Year ended
	31st December 2025	31st December 2024
Market Value of assets	3,526	3,454
Present Value of liabilities	(2,578)	(2,588)
Surplus in the scheme	948	866
Pension asset recognised in the Statement of Financial Position before allowance for deferred tax	948	866

23 Pension Scheme Obligations (Group and Society) (Continued)
(e) Reconciliation of Scheme Assets and Defined Benefit Obligation (“DBO”)

	Assets	DBO	Total
	£'000	£'000	£'000
As at 1st January 2025	3,454	(2,588)	866
Benefits paid	(181)	181	-
Employer contributions	6	-	6
Interest income/(cost)	185	(137)	48
Remeasurement gains/(losses):			
- Actuarial gains: changes in assumptions	-	41	41
- Actuarial losses: experience differing from the assumed	-	(75)	(75)
- Return on plan assets excluding interest income	62	-	62
As at 31st December 2025	3,526	(2,578)	948

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

	Year ended	Year ended
	31st December 2025 £'000	31st December 2024 £'000
Technical Account:		
Total Service Cost comprising past service cost	-	-
Net Interest	(48)	(22)
Amount (credited)/charged to operating expenses in the Technical Account	(48)	(22)
Other comprehensive income:		
Remeasurement of the net defined benefit liability/(asset):		
Actuarial gains/(losses) on liabilities	(34)	293
Return on assets excluding amount included in net interest	62	32
Gain/(loss) recognised in Other Comprehensive Income	28	325
Total amount (credited)/charged to Statement of Comprehensive Income	(76)	(347)

(g) Future Funding Obligation

The Trustees are required to carry out an actuarial valuation every 3 years. This valuation is used to determine the contributions that are required to be paid by the Society. The Trustees are required to allow for a level of prudence when setting the assumptions used for the valuation. This means that the liabilities calculated are higher than those reported under FRS 102.

The last actuarial valuation of the Scheme was performed by the Actuary for the Trustees as at 5th April 2024. This valuation revealed a surplus of £0.7million so the Society is no longer required to pay any deficit contributions. The Society will continue to cover all expenses of administering the Scheme (except investment management expenses) directly. The Society therefore does not expect to pay any contributions to the Scheme during the accounting year beginning 1st January 2026.

(h) Virgin Media vs NTL court case

In July 2024, the court of appeal published a ruling that certain amendments made to the NTL Pension Plan by Virgin Media were invalid because they were not accompanied by the correct actuarial confirmation.

On 1st September 2025, the Government published a list of amendments to the Pension Schemes Bill, which included changes to address issues arising from the Virgin Media ruling. These changes mean that schemes are able to retrospectively certify historical benefits changes. As a result, no additional liabilities are expected to arise from the ruling, other than where benefits changes do not meet the requirements to be certified. Therefore, no allowance has been made for this ruling as at 31st December 2025 and the prior year.

24 Capital Management

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

(a) Policies and Objectives

The Society's key management objectives are:

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

Details of the Society's objectives and its strategy to achieve them are provided in the Strategic Report from page 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 Resources

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

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

	Society	
	2025 £'000	2024 £'000
Fund for Future Appropriations	21,672	20,808
Regulatory Solvency Adjustments	(4,150)	(2,552)
Total available capital resources	17,522	18,256
Solvency ratio (unaudited)	171%	189%

24 Capital Management (Continued)
(c) Measurement and Monitoring of Capital

The Society's solvency position is regularly reviewed to ensure it maintains an acceptable level of solvency. The Society has a Capital Management Restoration Plan ("CMRP") to restore capital should capital fall below the acceptable level.

(d) Analysis of Capital Change

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

	2025 £'000	2024 £'000
Capital resources at 1st January	18,256	20,744
Changes in available capital due to:		
Model changes	11,899	5
Assumption changes	3,877	5,267
Unwind of discounting	419	975
Policy movements	(12,290)	(7,746)
New business	(5,154)	(2,721)
Change in risk margin not due to assumption changes	(3)	978
Change in pension scheme	82	422
Other	436	332
Capital resources 31st December	17,522	18,256

Policy movements reflect changes in the inforce book of business as a result of exits over the year. Model changes reflect changes to the modeling and taking into consideration management actions in the year.

25 Risk Management and Control

This note provides information on the material risks arising from financial instruments to which the Group and the Society is exposed and how they oversee these risks. The Risk Management Report of the Strategic Report from page 12 provides more detail on the Society's overarching risk management framework and the Society's key risks.

(a) Overview of Risk Management

The Board has ultimate responsibility over risk management and it is supported by Board Committees in executing its responsibilities. The Board Risk Committee provides oversight on risk management as a delegated function on behalf of the Board.

The Society has a Risk Management Framework to support the identification, assessment, management and control of material risks that could impact the Society's strategy and the fair treatment of members. The material risks are captured in the headline risks for the Society. Risk reporting indicators are used as early warning indicators and they are aligned to the risk appetites. These indicators are then reported to the Board Committees.

The Risk Database is used as repository for all risks identified by the Society. People at all levels in the Society use the risk database to manage the controls that are designed to mitigate the risks that have been identified.

25 Risk Management and Control (Continued)**(b) 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. New business volumes that are too low 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.

(c) Insurance Risk

The following are the primary insurance risks in the business:

- Mortality risk is the risk that death claims are significantly more than expected in terms of numbers and values.
- Morbidity risk is the risk that sickness claims are significantly more and recover slower than expected in terms of numbers and values.
- Lapse risk is the risk the policies cease and therefore contributions from future premiums are not as high as anticipated.
- Expense risk is the risk that the future costs of administering policies are higher than anticipated.

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

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

Note 19 sets out the Technical provisions and the changes over the year. A sensitivity analysis of the Society's results to changes in insurance risks is included in Note 25(d).

(d) 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, interest rate risk and currency exchange risk, and credit risk which includes 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.

(i) 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.

25 Risk Management and Control (Continued)
(i) Liquidity Risk (Continued)

The Society's liquidity risk is overseen by the Board Risk Committee in accordance with the Society's Liquidity Management Policy.

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.

	Less than 1 year	1 - 5 years	6 - 10 years	> 10 years	Total	Balance sheet carrying value
2025 Cash flows (undiscounted)	£'000	£'000	£'000	£'000	£'000	£'000
Group & Society						
Long-term business provision	(10,808)	(25,274)	(9,109)	(44,095)	(89,286)	(52,294)
Linked liabilities	(21,691)	(30,978)	-	-	(52,669)	(52,669)
Other technical provisions	(3,858)	(75,282)	-	-	(79,140)	(68,882)
Net cash (outflow)/inflow	<u>(36,357)</u>	<u>(131,534)</u>	<u>(9,109)</u>	<u>(44,095)</u>	<u>(221,095)</u>	<u>(173,845)</u>
2024 Cash flows (undiscounted)	£'000	£'000	£'000	£'000	£'000	£'000
Group & Society						
Long-term business provision	(7,108)	(18,620)	(9,756)	(21,187)	(56,671)	(42,948)
Linked liabilities	(6,789)	(37,574)	-	-	(44,363)	(44,363)
Other technical provisions	(6,008)	(64,287)	-	-	(70,295)	(60,242)
Net cash (outflow)/inflow	<u>(19,905)</u>	<u>(120,481)</u>	<u>(9,756)</u>	<u>(21,187)</u>	<u>(171,329)</u>	<u>(147,553)</u>

(ii) 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. 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 25(d).

The Board and the Board Risk Committee oversees investment activity, monitors the investment manager's performance, and ensures that the investment policy are adhered to. In uncertain market conditions, investment performance is closely monitored daily. The policy and investment strategy are reviewed and approved by the Board and the Chief Actuary on an annual basis. The Group manages its assets for the benefit of its members in accordance with the Board approved Investment Policy. The Society employs external investment managers to manage most of the Group's assets, but the Board maintains oversight to ensure that these assets are managed in line with the Investment Policy and the Board's risk appetite.

(a) Equity Price Risk

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

(b) Interest Rate Risk

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

25 Risk Management and Control (Continued)
(ii) Market Risk (Continued)

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

(c) Exchange Rate Risk

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

(iii) Credit Risk
(a) Credit Spread Risk

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

(b) 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 ongoing 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.

	2025		2024	
	£'000	Credit Rating	£'000	Credit Rating
Other Financial Investments at fair value	128,600	A	101,486	A
Assets held to cover linked liabilities	52,669	A	44,363	A
Reinsurance assets	8,144	AA	8,820	AA
Cash at bank	4,603	A	8,149	A
Cash equivalents	3,795	A	6,658	A
Amount due from brokers	1,267	A	1,281	A
Trade and other debtors	1,051	Not rated	789	Not rated
	200,130		171,546	

As at 31st December 2025, trade and other debtors that were past due but not yet impaired was £61,000 (2024: £38,000). No other amounts were past due as at the date of the Statement of Financial Position.

(d) 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.

25 Risk Management and Control (Continued)
(d) Sensitivity of the Group's and Society's results to changes in key assumptions (Continued)

Variable	Change in Variable %	Group and Society	
		2025 Change in FFA £'000	2024 Change in FFA £'000
Insurance risks			
Change in mortality (note 19a(iv))	-20%	(1,712)	(1,924)
Change in morbidity (%CMIR12) (note 19a(v))	+25% inceptions and -20% recoveries	(11,650)	(11,699)
Change in expenses (note 19a(iii))	+10%	(1,777)	(2,225)
Change in lapses (note 19a(vi))	+10%	(6,962)	(5,859)
Change in lapses (note 19a(vi))	-10%	13,250	12,066
Market risks			
Change in fixed interest yields (note 25d(ii)(b))	PRA interest rate up	(12,084)	(8,224)
Change in fixed interest yields (note 25d(ii)(b))	PRA interest rate down	13,377	8,959
Fall in equity values (note 24b(ii)(a))	-10%	(3,108)	(2,252)

26 Events after the date of the Statement of Financial Position

The ongoing geopolitical situation, in particular in the Middle East is highly uncertain and continues to develop. This uncertainty can heighten the risk 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 Society and the Group. At the time of approving these financial statements, there has been no significant impact on solvency levels. Management will continue to monitor the evolving situation and take appropriate actions to manage any 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, policies and people by directing management activities with objectivity, accountability and integrity.
Derivatives	A financial contract whose value is linked to the value of an underlying asset, which for the Society is the value of the UK gilt.
Financial Conduct Authority (FCA)	An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.
FRS102, FRS103	The Financial Reporting Standards issued by the UK Accounting Standards Board.
Fund for Future Appropriation, FFA	The Statement of Financial Position item required by Schedule 3 to the Regulations to comprise all the funds of which the allocation to with-profits policyholders has not been determined by the end of the reporting period.
Guaranteed Minimum Pension (GMP)	Guaranteed Minimum Pension is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6th 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.
Headline Risks	The key risks facing the Society are monitored and captured as headline risks in the Society's risk management framework. The headline risks are categorised into product risk, capital risk and operational risk.
Own Risk and Solvency Assessment (ORSA)	The ORSA is the Society's Own Risk and Solvency Assessment. It is a forward looking assessment of the Society's solvency position taking into account the specific risks to which it is exposed.
Pooled investments	Also known as collective investment schemes, monies from investors are put into a large fund that is spread across many investments and managed by a professional fund manager.
Principles and Practices of Financial Management (PPFM)	A document that sets out the basis by which The Shepherds Friendly Society Limited conducts its with-profits business.
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.

Glossary (Continued)

Reinsurance	The Society pays a premium to a larger insurer to share the risk on insurance contracts.
Risk Margin	The amount of capital that the Society is required to hold to ensure that it is able to transfer its liability to another insurer if required.
Solvency UK Directive	Solvency UK is the reformed regulatory framework for insurers in the UK, transitioning from the previous Solvency II regime. Solvency UK is a fundamental review of the capital adequacy regime for the UK insurance industry. It established a revised set of UK-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 UK directive. Life insurers in the UK are required to disclose this report publicly and to report it to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.
Solvency Capital Requirement (SCR)	The amount of capital that the PRA requires a UK Life insurer to hold, calculated using Solvency UK requirements.
Sterling Overnight Index Average (SONIA)	The SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in Britain. SONIA replaced LIBOR from 31st July 2021.
Smoothing	The principle of reducing bonuses to with-profits members in good years to prevent lower bonuses in poor years.
Technical provisions	An actuarial calculation of the amounts needed to meet the expected liabilities to policyholders, taking into account expected premiums on certain types of insurance contracts in force, and after allowing for maintenance costs and an appropriate risk margin.
Three lines of defence approach	A control framework to ensure that the Society is properly controlled through management as the first line, risk and compliance policies and monitoring as the second line and independent audit as the third line.
Valuation methods	Note 19 of the Report and Accounts refers to the assumption that the actuary uses in calculating the Technical provisions. The references are to standard actuarial tables for calculating death and sickness rates.
With-Profits Fund	A pooled investment fund where premiums from the with-profits members are added together and invested. The investment return is held in the With-Profits Fund and paid out to the with-profits members on a smoothed basis over time.

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