

REPORT & ACCOUNTS 2010



Your Future is
Our Business

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Registered Office	3 Maple Park Maple Court Wentworth Business Park Tankersley Barnsley S75 3DP
Committee of Management	Thomas Burton (Chairman) Stephen Birch (Vice Chairman) Anthony Burdin (Chief Executive) Marian Burton Sheila Johnson Neil Spawforth Barrie Staniland
Trustees	Kenneth R Hartley William M Kennerell
Chief Executive/Secretary	Anthony Burdin
Registered Auditor	Barber Harrison & Platt 2 Rutland Park Sheffield S10 2PD
Solicitors	Hill Dickinson 50 Fountain Street Manchester M2 2AS
Actuary	D Lechmere FIA OAC Actuaries and Consultants Portsoken House Minories London EC3N 1LJ
Stockbrokers	Pilling & Co Rensburg Sheppards
Bankers	NatWest Bank plc

Registered under the Friendly Societies Act 1974 (Reg. No. 810F)

Authorised and regulated by the Financial Services Authority

Report of the Committee of Management for the year ended 31 December 2010

COMMITTEE OF MANAGEMENT

The following have served as members of the Committee of Management during the year:

Mr T Burton	Chairman
Mr S Birch	Vice Chairman
Mr K Hartley	Trustee
Mr W M Kennerell	Trustee (appointed as a Trustee 12 June 2010)
Mr D Marshall	Trustee (retired 12 June 2010)
Mr A R Burdin	Committee/Chief Executive
Mrs M Burton	Committee
Mrs S Johnson	Committee
Mr N Spawforth	Committee
Mr B Staniland	Committee

Review of the Year

The Society continues to provide a range of saving, investment and protection policies to meet the needs of members. These products are available through the following distribution channels:-

- direct from the Society
- via the Society's website: www.sheffieldmutual.com
- local Lodges
- or from Independent Financial Advisers (IFAs)

Despite the challenging economic conditions during the year, the Society has seen further growth in membership and premium income, which is shown in the following tables. This demonstrates the continued attractiveness of the Society's with-profits savings and investment policies, many of which provide the security of a guaranteed sum assured. The Society has also seen further significant growth in the number of Child Trust Fund (CTF) accounts, largely as a result of HMRC allocated accounts.

The following tables show how membership has developed in recent years:-

Year Ending	Number of Members (Excl CTF)	Number of Policies (Excl CTF)
31.12.08	5,710	6,660
31.12.09	6,264	7,201
31.12.10	6,912	8,049

Year Ending	Number of New Members (Excl CTF)	Number of New Policies (Excl CTF)
31.12.08	644	799
31.12.09	790	993
31.12.10	899	1,171

Year Ending	Number of New CTF Accounts	Number of CTF Accounts
31.12.08	528	528
31.12.09	12,971	13,453
31.12.10	13,127	26,483

During 2010 the Society aimed to achieve steady and controlled growth in its with-profits business. The Committee was mindful that the economic recovery remained fragile and the main considerations, therefore, were to protect the Society's financial strength and to maintain competitive returns for members. Regular premium income, which provides a long-term revenue stream for the Society, accounted for more than half of the total contributions of £2.72 million. Pleasingly, income from single premium products, such as Investment Bonds and Individual Savings Accounts (ISAs), also continued to grow. The Society's unit-linked Stakeholder Child Trust Fund attracted premium income of £5.26 million during the year and this, together with the growth in our traditional with-profits business, resulted in a 33% increase in total assets at the end of the year. Excluding the CTF, the Society's assets increased by 14%.

Report of the Committee of Management for the year ended 31 December 2010

Year Ending	Premium Income (Excl CTF) £'000	Assets (Excl CTF) £'m
31.12.08	2,381	20.4
31.12.09	2,531	23.6
31.12.10	2,716	26.9

Year Ending	CTF Premium Income £'000	Total Assets (Incl CTF) £'m
31.12.08	133	20.5
31.12.09	4,763	29.6
31.12.10	5,263	39.4

Investments

2010 proved to be a volatile year for markets worldwide. However, a strong equity performance in the final few weeks of the year provided some optimism for the future, with the FTSE 100 Index climbing to 5899.9 by 31 December 2010 – 9% higher than 12 months earlier.

The Society has maintained a diversified and relatively stable investment portfolio, which helps to protect our members from the effects of extreme movements in individual asset classes, but has enabled us to benefit from the rise in equities. During 2010 and with cash deposit interest rates remaining historically low, the Committee increased the Society's fixed interest portfolio through the purchase of additional UK Government Gilts in lieu of low yielding cash holdings. The Society also increased its shareholdings in companies with robust balance sheets, consistent revenue streams, clear dividend growth potential and non-UK earnings.

The Society's properties continued to generate stable yields and the Committee expanded the portfolio by purchasing a newly built Tesco Express convenience store in County Durham and an existing Sainsbury's /Vets 4 Pets retail unit in Nottingham. Both properties have the benefit of long-term commercial leases backed by strong covenants.

The rise in stock markets has resulted in unrealised gains increasing our Reserves, which are more than five times the minimum regulatory margin, thereby maintaining a strong financial base. The Society's investment return for the year was 8.4%, which has enabled us to increase bonus rates on all with-profits policies. However, with the UK economic recovery remaining far from certain, the Committee remains cautious and we will take future decisions with a view to maintaining a low to medium risk investment strategy, whilst seeking to deliver higher potential returns over the life of a policy.

The next table shows the asset split of our investment fund at the end of 2010, with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

	2010	2009	2008
	%	%	%
Property	37.13	33.95	37.66
Mortgages on land and buildings	13.05	15.56	18.25
Listed investment - equities	28.08	26.63	21.62
- fixed interest	16.56	16.37	13.70
Cash	5.18	7.49	8.77
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

The Society seeks to adopt an ethical approach to investing and it is our policy not to invest in industries relating to armaments, tobacco and pornography.

Report of the Committee of Management for the year ended 31 December 2010

Future Strategy

The Society's medium term strategy is to grow the Society's business organically at a controlled rate and in order to achieve this we will continue to develop our connections with Independent Financial Advisers (IFAs). We will also aim to attract more direct business, both locally through targeted marketing initiatives and nationally through the internet. The Society is continuing to plan for the impact of the FSA's Retail Distribution Review, which has an expected implementation date of January 2013. The Society ceased offering regulated financial advice to members in 2010, as this was no longer viable given the low demand and the increasing regulatory costs. However, the Society's professional and knowledgeable staff will continue to provide information on the Society's products, which should enable people to make their own informed decision about a product's suitability. Members requiring further guidance will be encouraged to see an IFA.

In December 2008, the Society launched a Stakeholder Child Trust Fund (CTF), which is now generating a significant income stream for the benefit of all members. Your Committee explained last year that it was mindful of the political risks to the future of this product and this assessment proved to be correct when the coalition Government announced its abolition with effect from 3 January 2011. The Society will continue to receive HMRC allocated accounts throughout 2011 and we will of course be required to administer the existing accounts until maturity, which will produce a useful level of net income for the next few years. The abolition of the CTF, therefore, will not have a material impact on the Society's business plan or long-term strategy.

The Society is well advanced with plans for Directive status and for the new EU capital rules for insurers known as Solvency II. Whilst this represents a significant change for the Society, your Committee is confident that we can meet the new requirements in 2012/13.

The Society is well placed to remain a successful independent friendly society, being well run, financially strong and having a growing membership.

Responsibilities of the Committee of Management

The following statement is made by the Committee of Management in relation to the preparation of the annual financial statements, annual business statement and Committee Report.

The Committee of Management is required by the Friendly Societies Act 1992 ('the Act') to prepare for each financial year, annual financial statements, which give a true and fair view of the state of affairs of the Society as at the year end and of the income and expenditure of the Society during that year.

In preparing those financial statements, the Committee is required to:

- select appropriate accounting policies and apply them consistently.
- make select judgements and estimates that are reasonable and prudent.
- state whether applicable accounting standards have been followed, and any material departures disclosed and explained in the financial statements.
- prepare the financial statements on a going concern basis, unless it is inappropriate to assume that the Society will continue in business.

In addition to the financial statements, the Committee is responsible for ensuring that the Society:

- keeps accounting records in accordance with the Act.
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

They also have general responsibility for safeguarding the assets of the Society and to take reasonable steps for the prevention and detection of fraud and other irregularities.

Going Concern

The Committee is satisfied that the Society has adequate resources to continue in business for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

Operating Powers

It is the opinion of the Committee of Management that no activities have been carried on outside its powers during the financial period.

Solvency

The Society had the required margin of solvency as prescribed in Regulations made under Section 48(2) of the Friendly Societies Act 1992 for its relevant classes of business at 31 December 2010.

Complaints by Members

The Society has a documented complaints procedure and aims to treat its members fairly. There have been no complaints this year.

Report of the Committee of Management for the year ended 31 December 2010

Corporate Governance

In 2010, the Committee comprised of the Chairman, two Trustees, six non-executive members (five from 12 June 2010) and one executive member (Chief Executive). Biographies for each of these are shown on pages 10 & 11 and the Committee believes that the balance of skills and experience of the members is appropriate to the current requirements of the business.

The Committee determines the strategic direction of the Society and reviews its operating and financial position. The Committee met on eleven occasions during 2010 and there is a schedule of regular reports and information, which they consider at the meetings and which is agreed annually. Reports are provided to the Committee in advance of each meeting. The Chief Executive is responsible for carrying out the agreed strategy and the day to day running of the Society.

There are certain decisions that are reserved for the Committee and these include:

- declaration of annual bonus rates
- acquisition/disposal of significant assets
- committee succession planning
- approval of the annual report and accounts
- remuneration policy

Finance & Risk Sub-Committee

The Society has a Finance & Risk Sub-Committee which meets on a monthly basis and is comprised of the two Trustees, Society's Chairman and two other Committee members by rotation, plus the Chief Executive. Occasionally, the matters which are usually dealt with by this Sub-Committee are discussed by the full Committee depending upon the timing of meetings. The Sub-Committee is not chaired by the Society's Chairman and the position of Sub-Committee Chairman is normally rotated on a bi-annual basis. The Sub-Committee's main responsibilities are:

- to review monthly Income & Expenditure.
- to review the Balance Sheet on a quarterly basis.
- to consider and review recommendations from, and performance of, the Society's Stockbrokers and agree sales and purchases as necessary.
- to monitor the Society's property portfolio and agree sales and purchases within delegated limits.
- to monitor the Society's risks, ensuring that they are managed effectively.

Internal Controls

The Society has an established framework of internal controls for the management of risk within the business and to safeguard the interests of members. The Committee reviews the effectiveness of its internal control systems by receiving reports from the external Compliance Consultant and our Internal Auditors. The Internal Auditors visit for a total of ten days per year and work to a Committee approved programme designed to examine the risks identified in the Society's Risk Management analysis. Their reports are considered by the full Committee and action taken where appropriate. The Operational Risk Register is reviewed by the Finance & Risk Sub-Committee on a quarterly basis.

Committee Evaluation

The Chairman carried out a formal review of each Committee member by obtaining and co-ordinating responses to individual questionnaires which were circulated to all members. The results were then discussed individually as appropriate. In addition, each member was consulted to assess the performance of the Committee as a whole and the Sub-Committee.

The Vice Chairman co-ordinated the responses to a questionnaire relating to the performance of the Chairman in carrying out his duties and the results were discussed. The Chief Executive's performance is reviewed by the Committee.

The Committee has continued to develop its knowledge by receiving specialist presentations from the Actuary, Compliance Consultant and Stockbrokers. The Chairman has met with other non-executive Committee members without the Chief Executive being present.

There is a succession plan in place which has identified potential replacement dates and skills requirements.

Subject also to the Society's rules, new appointments to the Committee are being made on the basis of three year terms. Where Committee members have held their position for more than nine years, they will be subject to re-election at the Society's Annual General Meeting on a year by year basis.

Report of the Committee of Management for the year ended 31 December 2010

Committee Evaluation - continued

Barrie Staniland, having reached 70 years of age, will retire from the Committee at the AGM in June 2011. Having served as a Lodge Secretary from the mid 1970s, Barrie joined the Committee in 1990 and is a past President of the Society. The Committee would like to take this opportunity to thank Barrie for his significant contribution to the success of the Society over more than 30 years. The Society is seeking an accountancy or audit professional to replace Barrie.

There are several Committee members offering themselves for re-election at the Annual General Meeting and the Chairman confirms that, following formal performance evaluation, each individual's performance remains effective and that they continue to demonstrate commitment and independent judgement to the role. He recommends therefore that they should be re-elected.

Report of the Committee of Management for the year ended 31 December 2010

Annotated Combined Code

The Society has adopted the Annotated Combined Code for Governance in Mutual Insurers and submits a monitoring questionnaire, along with other mutual societies, to the Association of Financial Mutuals, which will in turn report to the Financial Services Authority. The Society has complied with the Code during 2010, with the exception of the following, which we identify under the 'comply or explain' regime.

1. Due to our size, the Chief Executive also holds the position of Secretary. However, the Committee is confident that it receives the necessary guidance and support, and feels that the cost of employing a separate Secretary would not at this stage be an appropriate use of funds.
2. Again due to size, we do not have distinct Nominations & Remuneration or Audit Committees, but matters which would be dealt with by such committees are reviewed by the full Committee.
3. There is no Senior Independent Committee member, but the Vice Chairman has been nominated to receive any items from members where they do not feel that an issue can be resolved by either the Chief Executive or Chairman.
4. A number of Committee members have served in their position for more than nine years. The Code questions whether after this period, an individual can be viewed as being independent, but it is the Committee's ongoing opinion that all of the individuals in this category still provide balanced views on issues facing the Society. As stated earlier in the report, these Committee members will offer themselves for re-election on an annual basis.
5. The Chairman did not meet the independence criteria set out in A.3.1 of the Code on his appointment, as there was a close family tie with another member of the Committee. However, this was accepted by the Committee as it was not considered to be detrimental of the role.
6. The Committee does not assess remuneration levels relative to other organisations as it prefers to act independently.
7. A significant proportion of executive directors' remuneration is not structured so as to link rewards to corporate and individual performance, as the Chief Executive is the only executive director and is responsible for carrying out various functions, including compliance and secretarial.
8. Due to our size and as the Chief Executive is very close to the day to day operations of the business, we do not have a distinct member relations function or member relations strategy.

Attendance at Meetings

	Committee		Finance	
	Number of Meetings	Attended	Number of Meetings	Attended
T Burton	11	11	11	11
K R Hartley	11	10	11	10
W M Kennerell	11	11	8	8
D Marshall	6	6	4	4
S Birch	11	10	5	5
A Burdin	11	11	11	11
M Burton	11	11	6	6
S Johnson	11	11	8	8
N Spawforth	11	11	5	5
B Staniland	11	10	7	6

Report on the Committee Members' Remuneration

The salary of the Chief Executive is reviewed annually by the Committee without him being present. He is a member of the Society's Group Personal Pension Scheme and is eligible for a performance related annual bonus payment of up to £3,000.

Committee members are remunerated for their attendance at meetings and other time spent on Society business based on a predetermined hourly rate, plus a retainer fee. The remuneration of the Chairman is decided by other Committee members and the Committee agrees their own fee rate. Fee levels are reviewed annually and in order to reflect the growing responsibility and complexity of the role, it was decided that the hourly rate would be increased by 3.6% to £29 for the Chairman and by 4.3% to £24 for Committee members, and that the annual retainer fee would be increased by £200 to £1,000 for the Chairman and by £200 to £750 for other Committee members. Whilst Committee fees are modest in comparison to many company Boards, the fees must be sufficient to attract and retain people with the relevant skills and experience to support the Society's future growth and development.

Report of the Committee of Management for the year ended 31 December 2010

Committee Members' Emoluments

	Salary/Fees & Expenses £	Taxable Benefits £	Pension Contributions £	2010 Total £	2009 Total £
Chairman					
T Burton	4,365	-	-	4,365	4,689
Trustees					
K Hartley	2,445	-	-	2,445	2,201
M Kennerell	2,689	-	-	2,689	2,183
D Marshall (retired 12 June 2010)	1,146	-	-	1,146	2,072
Committee					
S Birch	2,642	-	-	2,642	2,499
M Burton	2,897	-	-	2,897	3,027
S Johnson	2,280	-	-	2,280	494
N Spawforth	1,992	-	-	1,992	346
B Staniland	1,661	-	-	1,661	1,788
J P Jessop (retired 13 June 2009)	-	-	-	-	1,256
Chief Executive					
A Burdin (appointed 2 March 2009)	90,346	-	2,000	92,346	66,667
A Townsley (resigned 2 March 2009)	-	-	-	-	15,802

Included in Mr A Burdin's salary, expenses and fees is a one off amount for £7,946 relating to relocation expenses.

Report of the Committee of Management for the year ended 31 December 2010

Committee of Management

Thomas Burton, Grad RIC, FPC1, Age 64 - Chairman

Tom joined the Committee in 1999 and has served as Chairman during the last six years. He retired from full-time employment six years ago after working in the nuclear fuels industry for 39 years as a team leader. One of his specialities then was dealing with compliance issues, which has proved to be very useful when serving on the Committee. He lives in Lytham St Anne's with his wife, Marian, and his hobbies include gardening, photography and home computing.

Stephen Birch, Age 56 – Vice Chairman

Stephen started work at 16 as an apprentice craftsman in the power supply industry and now works as an Electrical Power Engineer for the National Grid. He has been a Lodge Secretary for 28 years and served on the Committee since 1989, including two years as President from June 1998 to 2000. His hobbies include DIY, gardening and historic vehicles.

Kenneth Richard Hartley, Age 68 - Trustee

Ken became a Lodge Secretary in 1969 and was elected to the Committee in 1982. He was the Society's President in 1986/87, has been a Trustee since 1990, and holds FPC1. In 1995, he became a Magistrate and currently sits on the Barnsley Bench.

William Michael Kennerell, Age 68 - Trustee

Mick's entire employment has been in Engineering from Toolmaker to Engineering Services Manager for a large Automotive Company. He is now retired. Mick has been a member of the Society since he was a child. Mick was elected to the Committee of Management in 1988 and has served as President for 3¹/₂ years and as a Lodge Secretary until the end of May 2005. Mick was elected as a Trustee in June 2010. He is married with 2 children.

Anthony Robert Burdin, DipM MCIM, Age 49 – Chief Executive

Tony joined the Society on 2 March 2009 as Chief Executive. He has worked in the mutual sector for over 30 years and has held a number of senior positions with two top-twenty building societies, including a brief spell in the Channel Islands. Tony is a professionally qualified member of the Chartered Institute of Marketing and has a broad base of relevant management skills. He lives in Yorkshire, with his wife Jenny.

Marian Burton, Age 66

Marian has been associated with Sheffield Mutual (formerly Independent Druids FS) for the majority of her life, her father being a former President and Trustee. She also had the honour of being the Society's first woman Chairman and was heavily involved in the Society's modernisation. Before retirement, she had spent her working life in the law, and, as a Legal Executive, headed a Matrimonial Department. Since then she has been appointed a JP and her hobbies include singing, gardening and charity work.

Sheila Johnson, FCIB, Age 62

Sheila has over 40 years experience in the financial services sector, most of them with building societies. More recently, she held various senior positions with the Mansfield Building Society and was the Society's Compliance and Employee Development Executive until her retirement at the end of 2008. In addition to being a member of Sheffield Mutual's Committee of Management, Sheila is a non-remunerated Trustee of the Mansfield Building Society Retirement and Death Benefit Scheme. She lives in Finningley, near Doncaster, with her husband Richard.

Neil Spawforth, MRICS, Age 35

Neil has over ten years experience as a Chartered Surveyor and his knowledge of commercial property is of great value to the Society. In addition to being a member of Sheffield Mutual's Committee of Management, Neil is a Property Manager for CSPC Management Services, where he manages a number of Primary Care facilities in South Yorkshire. He has been a member of the Society since 2007 and lives in Altofts, West Yorkshire, with his wife Charlotte and their two children.

Report of the Committee of Management for the year ended 31 December 2010

Committee of Management - continued

Barrie Staniland, Age 70

Barrie worked in the Electrical Supply Industry as an Electrician/Technician in various departments and on different projects for 38 years, before taking early retirement in 1999. He was first introduced into the Friendly Society as a member over 40 years ago and served as Lodge Secretary from 1977 to 2005. Barrie joined the Committee of Management in 1990 and was elected President in 2000/2002. He passed FPC1 (Financial Planning Certificate) in 2003. He is married to Eileen and they have 2 children.

By Order of the Committee

T Burton - Chairman 16 April 2011

**Income and Expenditure Account
for the year ended 31 December 2010**

	Note	2010 £	2009 £
Contributions excluding child trust funds		2,715,731	2,530,796
Child trust fund contributions		5,263,483	4,763,176
Investment income	2	1,268,043	1,292,159
		9,247,257	8,586,131
Claims paid	3	(823,163)	(1,174,259)
Management and administrative expenses	4	(734,768)	(710,514)
Operating result		7,689,326	6,701,358
Taxation	5	(15,883)	32,136
Changes in long term business provisions	13	(8,676,154)	(7,403,751)
Unrealised (losses)/gains on investments	6	2,148,817	2,337,938
Change in fund for future appropriations	14	(1,146,106)	(1,667,681)
		-	-

**Balance Sheet
as at 31 December 2010**

	Note	2010 £	2009 £
ASSETS			
Investments	8	38,689,870	28,284,497
Tangible fixed assets	9	437,350	447,985
Debtors, Prepayments and accrued income	11	138,431	243,096
Cash at bank and in hand		141,006	592,160
		39,406,657	29,567,738
 LIABILITIES			
Creditors, accruals and deferred income	12	(200,326)	(183,667)
Long term business provisions	13	(31,506,505)	(22,830,351)
		7,699,826	6,553,720
 FUND FOR FUTURE APPROPRIATIONS	 14	 7,699,826	 6,553,720

The financial statements were approved by the Committee of Management on 16th April 2011.

T Burton
Chairman

A Burdin
Chief Executive

Notes to the Financial Statements for the year ended 31 December 2010

1 ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994, made under the Friendly Societies 1992 and applicable United Kingdom accounting standards. They have also been prepared under the historical cost convention as modified by the revaluation of the investment properties and listed investments, and include the results of the Society's operations, all of which are continuing.

(b) Premium income

Premiums and contributions are accounted for on a cash basis. The difference between this and the accruals basis is considered to be immaterial.

(c) Claims paid

Claims and benefits are included in the financial statements on an accruals basis.

(d) Investment income

Dividends receivable are accounted for on a cash basis. All other investment income is accounted for on an accruals basis, with property rents received in advance at the year end being deferred to the subsequent period.

(e) Investments

Investments other than property and listed investments are stated at cost.

All investment properties are revalued every three years and included at the latest valuation. In accordance with SSAP 19, no depreciation is provided on the investment properties.

Listed investments are restated to market value at each year end and the adjustment is shown in the Income and Expenditure Account as unrealised gains or losses.

(f) Fixed assets and depreciation

Office and computer equipment are included at cost less depreciation. Depreciation is provided at rates calculated to write off the cost over each assets expected useful life, as follows:-

Computer equipment	33.33%	per annum straight line
Office equipment	15%	per annum straight line
Plant in buildings (within freehold property)	10%	per annum straight line

The Society's freehold property (other than plant in buildings) is included at valuation and is therefore not depreciated.

(g) Taxation

The Society continues to supply both tax exempt policies, which according to current legislation do not attract tax, and taxable policies which do attract a tax charge.

(h) Pension contributions

The Society operates a group personal pension scheme, available for the majority of employees. The Scheme is invested within the Society in an earmarked fund.

The Society's contributions in respect of the year are shown in note 4. None were outstanding at the year end.

(i) Fund for Future Appropriations

The Fund for Future Appropriations incorporates amounts which have yet to be allocated to participating policyholders. Any surplus or deficit arising in the Income and Expenditure Account is transferred to or from the fund on an annual basis. Surpluses are allocated by the Committee of Management to participating policyholders by way of bonuses. Any unallocated surplus is carried forward in the Fund for Future Appropriations.

**Notes to the Financial Statements
for the year ended 31 December 2010**

2 INVESTMENT INCOME	2010	2009
	£	£
Rents receivable	539,651	535,115
Costs of maintaining properties	(27,103)	(477)
	512,548	534,638
Mortgage income	210,303	223,235
Income from listed investments	487,364	466,681
Bank and building society interest	21,854	40,186
	719,521	730,102
	1,232,069	1,264,740
Profit on sale of leasehold property	-	-
Profit/(Loss) on sale of listed investments	35,974	27,419
	35,974	27,419
	1,268,043	1,292,159

The Society's properties are revalued every three years as detailed in note 8.a

3 CLAIMS PAID	2010	2009
	£	£
Matured policies	297,006	737,414
Surrendered policies	195,512	147,872
ISA withdrawals	115,036	190,848
Death benefits	166,684	74,652
Child trust fund	44,170	17,096
Sickness benefits	997	853
Additional benefits	1,416	1,598
Cessation grants	2,342	3,926
	823,163	1,174,259

**Notes to the Financial Statements
for the year ended 31 December 2010**

4 MANAGEMENT AND ADMINISTRATIVE EXPENSES	2010	2009
	£	£
Salaries including national insurance	230,047	219,380
Pension contributions	6,005	5,845
Internal auditor's fees	11,897	11,504
Actuary's fees	49,190	73,238
Auditor's fees - external audit	12,000	12,000
Auditor's fees - accountancy	7,000	8,412
Auditor's fees - over-provision re-prior year	(405)	(558)
Legal and professional fees	80,846	57,116
Committee of Management fees and expenses	22,117	20,555
AGM expenses	4,473	3,486
Computer running costs	36,316	27,687
Postage	11,347	7,795
Printing and stationery	10,546	14,734
Insurance	10,530	7,242
Motor vehicle and travel costs	3,727	3,490
Subscriptions	1,057	2,888
Lodge expenses	935	1,172
Bank charges	9,729	7,707
Miscellaneous expenses	2,506	1,875
Office expenses	37,671	40,411
Advertising and promotional costs	28,664	20,596
Personnel and Training	(313)	2,450
Commissions paid	155,996	139,604
Depreciation - freehold property	3,114	3,114
Depreciation - computer equipment	2,928	7,664
Depreciation - office furniture and equipment	4,643	4,917
Recoverable VAT on expenses	(7,798)	6,190
	<u>734,768</u>	<u>710,514</u>

5 TAXATION

The tax charge on the excess of income over expenditure for the year was as follows:-

Current Tax:	2010	2009
	£	£
UK corporation tax	20,000	11,000
UK corporation tax re prior years	(4,117)	(43,136)
Tax on excess of income	<u>15,883</u>	<u>(32,136)</u>

Notes to the Financial Statements for the year ended 31 December 2010

6 UNREALISED (LOSSES)/GAINS ON INVESTMENTS	2010 £	2009 £
Unrealised gain/(losses) on properties	-	-
Unrealised gain/(losses) on listed investments	2,148,817	2,337,938
	<u>2,148,817</u>	<u>2,337,938</u>

7 COMMITTEE EMOLUMENTS	2010 £	2009 £
Remuneration and fees	108,077	96,895
Expenses	6,386	6,129
Total Emoluments	<u>114,463</u>	<u>103,024</u>
Chairman	<u>4,365</u>	<u>4,689</u>
Highest paid member	<u>92,346</u>	<u>66,667</u>

The emoluments of the Committee, excluding pension contributions, fell within the following bands:

	2010 No	2009 No
£0 - £5,000	9	10
£10,001 - £20,000	-	1
£65,001 - £70,000	-	1
£70,001 - £95,000	1	-

Certain Committee members also received commission for introducing new business totalling £775 (2009: £280) for the year.

8 INVESTMENTS	Note	2010 £	2009 £
Summary			
Land and buildings	(a)	9,708,891	7,585,382
Mortgages on land and buildings	(b)	3,413,333	3,476,583
Listed investments	(c)	24,212,333	15,548,813
Bank and money market deposits		1,355,313	1,673,719
		<u>38,689,870</u>	<u>28,284,497</u>

**Notes to the Financial Statements
for the year ended 31 December 2010**

8 INVESTMENTS (continued)	Freehold Properties	Total
(a) Land and buildings	£	£
Cost or valuation:		
Balance as at 1 January 2010	7,585,382	7,585,382
Additions	2,123,509	2,123,509
Disposals	-	-
Revaluation in year	-	-
Balance as at 31 December 2010	<u>9,708,891</u>	<u>9,708,891</u>

The freehold and leasehold properties were revalued by Brownhill Bateman, Chartered Surveyors, in December 2008 on an open market value basis.

(b) Mortgages on land and buildings	£
Commercial:	
Balance as at 1 January 2010	3,476,583
Advances during the year	250,000
Repaid during the year	(313,250)
Balance as at 31 December 2010	<u>3,413,333</u>

(c) Listed investments at valuation	2010	2009
	£	£
British Government securities	1,080,560	537,073
Other listed investments - equities	7,343,280	5,948,473
- fixed interest	3,251,341	3,120,214
Child Trust Fund investments	12,537,152	5,943,053
Balances as at 31 December 2010	<u>24,212,333</u>	<u>15,548,813</u>
Cost of listed investments:		
British Government securities	1,056,349	518,380
Other listed investments	10,778,097	10,149,107
Unit linked investments	10,148,785	4,890,522
	<u>21,983,231</u>	<u>15,558,009</u>

Notes to the Financial Statements for the year ended 31 December 2010

9 TANGIBLE FIXED ASSETS	Freehold property	Office furniture & equipment	Computer equipment	Total
Cost or valuation	£	£	£	£
Balance as at 1 January 2010	442,456	42,395	79,234	564,085
Additions	-	50	-	50
Disposals	-	-	-	-
Balance as at 31 December 2010	<u>442,456</u>	<u>42,445</u>	<u>79,234</u>	<u>564,135</u>
 Depreciation				
Balance as at 1 January 2010	15,570	26,291	74,239	116,100
Disposals	-	-	-	-
Charge for the year	3,114	4,643	2,928	10,685
Balance as at 31 December 2010	<u>18,684</u>	<u>30,934</u>	<u>77,167</u>	<u>126,785</u>
 Net book value				
As at 31 December 2010	<u>423,772</u>	<u>11,511</u>	<u>2,067</u>	<u>437,350</u>
As at 31 December 2009	<u>426,886</u>	<u>16,104</u>	<u>4,995</u>	<u>447,985</u>
 10 CAPITAL COMMITMENTS				
			2010	2009
			£	£
At 31 December 2010, the Society had capital commitments as follows:-				
Contracted for, but not provided for in the financial statements			-	1,000,000
			<u> </u>	<u> </u>
 11 DEBTORS, PREPAYMENTS AND ACCRUED INCOME				
			2010	2009
			£	£
Rents due			8,416	15,441
Mortgage interest due			32,926	28,235
Property Insurance premiums recoverable			362	362
Prepayments			26,078	134,255
Accrued income			49,084	43,618
Other Debtors			2,855	-
Corporation tax recoverable			18,710	21,185
			<u>138,431</u>	<u>243,096</u>
 12 CREDITORS, ACCRUALS AND DEFERRED INCOME				
			2010	2009
			£	£
Accruals and deferred income			155,401	124,192
Amounts due re matured policies			2,921	31,613
VAT			16,843	10,477
Corporation tax			20,000	11,000
PAYE and national insurance			5,161	6,385
			<u>200,326</u>	<u>183,667</u>

Notes to the Financial Statements for the year ended 31 December 2010

13 LONG-TERM BUSINESS PROVISIONS	With profits £	Unit linked £	Other £	Total £
At 1 January 2010	12,362,232	5,902,173	4,565,946	22,830,351
Transfer from Income & Expenditure Account	2,589,532	6,485,156	(398,534)	8,676,154
At 31 December 2010	<u>14,951,764</u>	<u>12,387,329</u>	<u>4,167,412</u>	<u>31,506,505</u>

14 FUND FOR FUTURE APPROPRIATIONS	2010 £	2009 £
At 1 January 2010	6,553,720	4,886,039
Surplus/(Deficit) for the year	1,146,106	1,667,681
At 31 December 2010	<u>7,699,826</u>	<u>6,553,720</u>

15 ACTUARIAL VALUATION AND TECHNICAL PROVISION

An Actuarial Report on the assets and liabilities of the Society was last prepared as at 31 December 2008 and a copy of this Report may be inspected at the Registered Office of the Society. A further valuation will be prepared as at 31 December 2011.

16 CAPITAL STATEMENT

The Society is required to comply with Financial Reporting Standard (FRS) 27 for Life Assurance. The main impact is to require detailed disclosure of the liabilities and financial strength of the Society. The capital statement illustrates the financial strength of the Society's life business and shows an analysis of the available capital resources calculated on a regulatory basis for the Society. The last required statutory valuation was carried out at 31 December 2008 in conformity with Liability Valuation Rule 5 in Appendix 5 of the Interim Prudential Sourcebook for Friendly Societies ("IPRU (FSOC)"), and so limitations apply to many of the key assumptions used.

	2010 £	2009 £
Fund for future appropriations (note 14)	7,699,826	6,553,720
Adjustment onto regulatory basis - Resilience reserve	(1,500,000)	(1,300,000)
General reserve	(500,000)	(500,000)
Total available capital resources	<u>5,699,826</u>	<u>4,753,720</u>

Total available capital resources were 535% of the required minimum margin, which was £679,620 at 31 December 2008. Since then the available capital resources have increased by more than any change in the required minimum margin.

Approximately 37% of the fund is held in property and approximately 28% of the fund is held in equities. These are sensitive to market movements in general. About 17% is held in UK bonds, and changing market conditions can affect bond values and future returns. Each bond also has its own individual credit risk. About 13% is held in the form of commercial mortgages and these are subject to default risk.

The valuation interest rate is determined by the overall return achieved on the assets held by the fund. Adjustments were made to the yield assumed to allow for current market conditions.

Notes to the Financial Statements for the year ended 31 December 2010

16 CAPITAL STATEMENT - Continued

The last required statutory valuation was carried out by the Actuary at 31 December 2008 and the main assumptions used are set out below.

- **Valuation Interest Rate**

Traditional Benefit Tables, Death Benefit and Sickness Tables: 3.25%

Tax Exempt With-Profits Business: 3.00%

Taxable With-Profits Business: 2.50%

- **Mortality**

All applicable tables: 80% of ELT15

- **Sickness**

All applicable tables: 150% of Manchester Unity (AHJ)

- **Expenses**

The allowance in the premium rates plus a specific reserve

- **Tax**

20% on interest and expenses for relevant taxable business

The main variable in the calculation of the technical provisions is the assumed interest rate. An increase in the assumed interest rate of 0.50% leads to a reduction of £250,000 in the technical provisions and a decrease in the assumed interest rate of 0.50% leads to an increase of £358,000 in the technical provisions, as at 31 December 2008. The effect of changes in the experienced rates of mortality and morbidity do not have any material effect on the technical provisions, as the two largest classes of contract are pure endowments (where the premiums are returned with interest on death), and single premium bonds where the valuation method generally holds the surrender value as the reserve.

The main variable in the assets is a change in the market value. The actuary has modelled the effect of changes in the assets backing the liabilities. A reserve of £750,000 was established at 31 December 2008. The Actuary's assessment of the amount required at 31 December 2010 is £1,500,000.

There has been an increase in the available capital resources from December 2009 to December 2010. The main reason for this has been the increased premiums and reduced claims paid. An analysis of the change is set out below:

Analysis of change in capital resources:	2010	2009
	£,000	£,000
Total available capital resources at 1 January 2010	4,754	3,636
Premiums less claims and expenses	6,421	5,410
Investment income less tax	1,252	1,324
Unrealised (losses) / gains on investments	2,149	2,338
Change in mathematical reserves	(8,213)	(7,096)
Cost of bonus	(463)	(308)
Change in general reserves	-	-
Change in resilience reserve	(200)	(550)
Total available capital resources at 31 December 2010	<u>5,700</u>	<u>4,754</u>

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE
SHEFFIELD MUTUAL FRIENDLY SOCIETY
YEAR ENDED 31 DECEMBER 2010**

We have audited the financial statements of Sheffield Mutual Friendly Society for the year ended 31 December 2010, which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. These financial statements have been prepared under accounting policies set out therein. We are also required to report on the Report of the Committee of Management for the year ended 31 December 2010.

This report is made solely to the Society's members, as a body. 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 Auditors' 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.

Respective responsibilities of the Committee of Management and Auditors

The Committee of Management's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of the Committee of Management's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. In addition, we report to you if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit.

We also report to you our opinion as to whether the Report of the Committee of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and as to whether the information given therein is consistent with the financial statements.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Committee of Management. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Committee of Management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2010, and of its income and expenditure for the year then ended, and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

In our opinion, the Report of the Committee of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Barber Harrison & Platt

Chartered Accountants
Statutory Auditors
Sheffield

Notes

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Notes

A series of horizontal dotted lines for taking notes.



Authorised & regulated by the Financial Services Authority