

# REPORT & ACCOUNTS 2009



Your Future is  
Our Business

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

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 2009

### COMMITTEE OF MANAGEMENT

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

Mr T Burton	Chairman
Mr J P Jessop	Vice Chairman (retired 13 June 2009)
Mr S Birch	Vice Chairman (appointed 25 July 2009)
Mr K Hartley	Trustee
Mr D Marshall	Trustee
Mr A R Burdin	Committee/Chief Executive (appointed 2 March 2009)
Mrs M Burton	Committee
Mrs S Johnson	Committee (appointed 26 Sept 2009)
Mr W M Kennerell	Committee
Mr N Spawforth	Committee (appointed 31 Oct 2009)
Mr B Staniland	Committee
Mr R A J Townsley	Committee/Chief Executive (resigned 6 March 2009)

### 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](http://www.sheffieldmutual.com)
- local Lodges
- or from Independent Financial Advisers (IFAs)

Despite the difficult 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 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:-

<b>Year Ending</b>	<b>Number of Members (Excl CTF)</b>	<b>Number of Policies (Excl CTF)</b>
31.12.07	5,229	6,188
31.12.08	5,710	6,660
31.12.09	6,264	7,201
<b>Year Ending</b>	<b>Number of New Members (Excl CTF)</b>	<b>Number of New Policies (Excl CTF)</b>
31.12.07	524	629
31.12.08	644	799
31.12.09	790	993
<b>Year Ending</b>	<b>Number of New CTF Accounts</b>	<b>Number of CTF Accounts</b>
31.12.08	528	528
31.12.09	12,971	13,453

Premium income has grown significantly in recent years and during 2009 the Committee took the prudent decision to restrict the increase in with-profits business, in order to protect the Society's financial strength during the economic recession. Whilst the popularity of single premium products, such as Investment Bonds and Individual Savings Accounts (ISAs), continued to grow, the Society's regular premium products, including the Tax Exempt Savings Plan, contributed over £1 million for the first time - providing stable and long term income for the Society. The Society's unit-linked Stakeholder Child Trust Fund, launched in December 2008, attracted premium income of £4.76 million during the year and this, together with the growth in our traditional with-profits business, resulted in a 44% increase in total Assets at the end of the year. Excluding the CTF, the Society's assets increased by 16%.

## Report of the Committee of Management for the year ended 31 December 2009

Year Ending	Premium Income (Excl CTF) £'000	Assets (Excl CTF) £'m
31.12.07	1,955	21.6
31.12.08	2,381	20.4
31.12.09	2,531	23.6
Year Ending	CTF Premium Income £'000	Total Assets (Incl CTF) £'m
31.12.08	133	20.5
31.12.09	4,763	29.6

### Investments

2009 has been a year of unprecedented contrasts. It began amidst fears that a serious hole existed in the global financial system, with a resulting risk of an extended period of recession, or even a worldwide depression. The low point of the year was early March, when the FTSE 100 Index briefly plummeted to below 3,500. The worst case scenario was ultimately averted through the various stimulus packages introduced by governments and central banks throughout the world and the year ended with confidence building and the FTSE 100 Index recovering to 5,412.9 by 31 December 2009 – 22.1% higher than 12 months earlier.

The Society has a diversified investment portfolio, which helps to protect our members from the effects of extreme movements in individual asset classes, such as equities. During 2009 and on the advice of the Society's stockbrokers, the Committee strengthened the Society's fixed interest portfolio through the purchase of a number of high quality Corporate Bonds. The Society also increased its shareholdings in companies mainly involved in defensive sectors, such as pharmaceuticals and utilities. The Society's properties continued to generate good yields and the Committee expanded the portfolio by purchasing a newly built tenanted office unit in Portishead, near Bristol.

The recovery in stock markets has resulted in unrealised gains increasing our Reserves, which are more than five times the minimum regulatory margin, leaving us with a very sound financial base. The Society's investment return for the year was 11.2%, which has enabled us to maintain, or in some cases increase, bonus rates on with-profits policies. However, with the economic recovery remaining weak and far from certain, the Committee is not complacent and we will take future investment and bonus decisions with a view to providing security for member funds in addition to good value returns over the life of a policy.

The next table shows the asset split of our investment fund at the end of 2009 with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

	2009 %	2008 %	2007 %
Property	33.95	37.66	38.58
Mortgages on land and buildings	15.56	18.25	15.55
Listed investment - equities	26.63	21.62	32.33
- fixed interest	16.37	13.70	9.91
Cash	7.49	8.77	3.63
	<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.

### Future Strategy

The Society's Committee of Management is committed to a policy of controlled long term growth for both our membership and premium income. In order to achieve this, we will continue to maintain our connections with IFAs, but we are also keen to attract more direct business by increasing awareness of the Society, particularly within our Yorkshire heartland. We also want to make it easy for people throughout the

## Report of the Committee of Management for the year ended 31 December 2009

### Future Strategy - continued

UK to access our products and services and, with this in mind, our website was improved and re-launched in 2009. The Society has also started planning for the impact of the FSA's Retail Distribution Review, which has an expected implementation date of January 2013.

In December 2008, we launched a Stakeholder Child Trust Fund (CTF) and it is encouraging to report that this is now producing positive cash-flow for the benefit of all members. Your Committee is mindful of the political risks to the future of this product should there be a change of government and, therefore, we continue to view the CTF as an ancillary activity, with our core business remaining the provision of with-profits policies.

The Society has started to plan for Directive status under the new EU capital rules for insurers known as Solvency II. The Directive has received EU parliamentary approval and will be implemented on 31 October 2012.

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 2009.

### 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 2009

### Corporate Governance

In 2009, the Committee comprised of the Chairman, two Trustees, six non-executive members 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 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 2009 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

### 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, matters which are 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-ordinates 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.

## Report of the Committee of Management for the year ended 31 December 2009

### Committee Evaluation - continued

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.

Following an advertisement in the Society's 2009 Member Newsletter and after a rigorous assessment and interview process, two new Committee members were appointed during the year.

Sheila Johnson was appointed to the Committee of Management in September 2009, as the replacement for Peter Jessop, who retired after the AGM in June 2009 after serving a three year term. Sheila has held senior management positions in the building society sector for many years and her experience will be a great asset to the Society. Neil Spawforth, who has been a member of the Society since March 2007, was appointed to the Committee in October 2009. Neil is a chartered surveyor by profession and his commercial property experience will be extremely valuable to the Society. Having been co-opted to the Committee of Management in 2009, Sheila and Neil will be offering themselves for election at the Annual General Meeting and the Chairman recommends that they should be elected.

David Marshall, having reached 70 years of age, will retire as a Trustee at the AGM in June 2010 and, therefore, Mick Kennerell will be offering himself for election as David's replacement. The Committee would like to take this opportunity to thank David for his significant contribution to the success of the Society during the past 29 years. Mick Kennerell, having served on the Committee in various roles since 1988, is well qualified to replace David and the Chairman recommends that he should be elected.

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 2009

### Annotated Combined Code

The Society has adopted the Annotated Combined Code for Governance in Mutual Insurers and submits a monitoring questionnaire, along with other Friendly Societies, to the Association of Friendly Societies (now the Association of Financial Mutuals), who will in turn report to the Financial Services Authority. The Society has complied with the Code during 2009, 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 and 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 companies as it prefers to act independently.

### Attendance at Meetings

	Committee		Finance	
	Number of Meetings	Attended	Number of Meetings	Attended
T Burton	11	11	10	10
J P Jessop	6	6	2	2
K R Hartley	11	10	10	8
D Marshall	11	11	10	10
S Birch	11	10	4	4
A Burdin	9	9	8	8
M Burton	11	11	6	6
S Johnson	3	3	1	1
W M Kennerell	11	10	5	5
N Spawforth	2	2	1	1
B Staniland	11	11	9	8
R A J Townsley	2	2	2	2

### 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 Money Purchase Pension Scheme through transferring his existing pension funds to the Society.

### Chairman and Committee

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 of the role, it was decided that the hourly rate would be increased by 3.7% to £28 for the Chairman and by 4.5% to £23 for Committee members, and that the annual retainer fee would be increased by £50 to £800 for the Chairman and by £50 to £550 for other Committee members.

## Report of the Committee of Management for the year ended 31 December 2009

### Committee Members' Emoluments

	Salary/Fees & Expenses £	Taxable Benefits £	Pension Contributions £	2009 Total £	2008 Total £
<b>Chairman</b>					
T Burton	4,689	-	-	4,689	4,918
<b>Trustees</b>					
K Hartley	2,201	-	-	2,201	1,432
D Marshall	2,072	-	-	2,072	1,978
<b>Committee</b>					
J P Jessop (retired 13 June 2009)	1,256	-	-	1,256	2,616
S Birch	2,499	-	-	2,499	2,779
M Burton	3,027	-	-	3,027	2,844
S Johnson (appointed 26 Sept 2009)	494	-	-	494	-
M Kennerell	2,183	-	-	2,183	2,424
N Spawforth (appointed 31 Oct 2009)	346	-	-	346	-
B Staniland	1,788	-	-	1,788	1,748
<b>Chief Executive</b>					
A Burdin (appointed 2 March 2009)	66,667	-	-	66,667	-
R A J Townsley (resigned 6 March 2009)	11,922	2,560	1,320	15,802	73,920

## Report of the Committee of Management for the year ended 31 December 2009

### Committee of Management

#### **Thomas Burton, Grad RIC, FPC1, Age 63 - Chairman**

Tom joined the Committee in 1999 and has served as Chairman during the last five years. He retired from full-time employment five 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 turned out 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 55 – 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 67 - 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.

#### **David Marshall, Age 70 - Trustee (Retired Community and Youth Worker)**

David has worked for the Society as a Lodge Secretary and member of the Committee of Management for the past 29 years. During this time he has had the honour of serving two terms as President and the past eight years as a Trustee.

#### **Anthony Robert Burdin, DipM MCIM, Age 48 – 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. Originally from South Yorkshire, Tony now lives in Harrogate with his wife Jenny.

#### **Marian Burton, Age 65**

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 61**

Sheila has over 40 years experience in the financial services sector, most of them with building societies. More recently, Sheila 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. Sheila lives in Finningley, near Doncaster, with her husband Richard.

#### **William Michael Kennerell, Age 67, Married with 2 Children**

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 3½ years and as a Lodge Secretary until the end of May 2005. Many changes have taken place since Mick joined the Committee of Management and he looks forward to playing a part in the future success of the Society.

## Report of the Committee of Management for the year ended 31 December 2009

### Committee of Management - continued

#### **Neil Spawforth, MRICS, Age 34**

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. Neil has been a member of the Society since 2007 and lives in Altofts, West Yorkshire, with his wife Charlotte and their two children.

#### **Barrie Staniland, Age 69, Married to Eileen for 48 years, 2 Children aged 41 and 44**

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.

### **By Order of the Committee**

**T Burton - Chairman** 17 April 2010

## Income and Expenditure Account for the year ended 31 December 2009

	Note	2009 £	2008 as restated £
Contributions excluding child trust funds .....		<b>2,530,796</b>	2,380,772
Child trust fund contributions .....		<b>4,763,176</b>	132,750
Investment income .....	<b>2</b>	<b>1,292,159</b>	1,317,619
		<b>8,586,131</b>	3,831,141
Claims paid .....	<b>3</b>	<b>(1,174,259)</b>	(703,583)
Management and administrative expenses .....	<b>4</b>	<b>(710,514)</b>	(586,487)
Operating result .....		<b>6,701,358</b>	2,541,071
Taxation .....	<b>5</b>	<b>32,136</b>	(51,622)
Changes in long term business provisions .....		<b>(7,403,751)</b>	(1,301,561)
Impairment of property value .....	<b>9</b>	-	(93,694)
Unrealised (losses)/gains on investments .....	<b>6</b>	<b>2,337,938</b>	(3,480,867)
Change in fund for future appropriations .....	<b>14</b>	<b>(1,667,681)</b>	2,386,673
		<b>-</b>	<b>-</b>

**Balance Sheet  
as at 31 December 2009**

	Note	2009 £	2008 as restated £
<b>ASSETS</b>			
Investments .....	8	28,284,497	19,182,213
Tangible fixed assets .....	9	447,985	456,442
Debtors .....	11	65,223	46,603
Cash at bank and in hand .....		592,160	739,510
Prepayments and accrued income .....	12	177,873	55,404
		<b>29,567,738</b>	20,480,172
<b>LIABILITIES</b>			
Creditors, accruals and deferred income .....	13	(183,667)	(167,533)
Long term business provisions .....	14	(22,830,351)	(15,426,600)
		<b>6,553,720</b>	4,886,039
<b>FUND FOR FUTURE APPROPRIATIONS</b>	<b>14</b>	<b>6,553,720</b>	4,886,039

The financial statements were approved by the Committee of Management on 17th April 2010.

**T Burton**  
Chairman

**A Burdin**  
Chief Executive

## Notes to the Financial Statements for the year ended 31 December 2009

### 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 asset's 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 not depreciated on the grounds of immateriality.

**(g) Taxation**

The Society continues to supply both tax exempt policies, which according to current legislation do not attract tax, and taxable policies which 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 2009**

<b>2 INVESTMENT INCOME</b>		<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Rents receivable .....	535,115		538,082
Cost of maintaining properties .....	(477)		-
		<b>534,638</b>	538,082
Mortgage income .....	223,235		229,654
Income from listed investments .....	466,681		439,508
Bank and building society interest .....	40,186		103,938
		<b>730,102</b>	773,100
		<b>1,264,740</b>	1,311,182
Profit on sale of leasehold property .....	-		79,339
Profit/(Loss) on sale of listed investments .....	27,419		(72,902)
		<b>27,419</b>	6,437
		<b>1,292,159</b>	1,317,619

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

<b>3 CLAIMS PAID</b>		<b>2009</b>	<b>2008</b>
		<b>£</b>	<b>£</b>
Matured policies .....		737,414	452,915
Surrendered policies .....		147,872	98,807
ISA withdrawals .....		190,848	39,405
Death benefits .....		74,652	103,201
Child trust fund .....		17,096	-
Sickness benefits .....		853	2,056
Additional benefits .....		1,598	1,785
Cessation grants .....		3,926	5,414
		<b>1,174,259</b>	703,583

## Notes to the Financial Statements for the year ended 31 December 2009

<b>4 MANAGEMENT AND ADMINISTRATIVE EXPENSES</b>	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
Salaries including national insurance .....	<b>219,380</b>	185,242
Pension contributions .....	<b>5,845</b>	8,947
Internal auditor's fees .....	<b>11,504</b>	9,282
Actuary's fees .....	<b>73,238</b>	43,761
Auditor's fees - external audit .....	<b>12,000</b>	12,000
Auditor's fees - accountancy .....	<b>8,412</b>	6,414
Auditor's fees - underprovision re-prior year .....	<b>(558)</b>	5,403
Legal and professional fees .....	<b>57,116</b>	43,555
Committee of Management fees and expenses .....	<b>20,555</b>	20,738
AGM expenses .....	<b>3,486</b>	3,859
Computer running costs .....	<b>27,687</b>	12,631
Postage .....	<b>7,795</b>	4,730
Printing and stationery .....	<b>14,734</b>	12,593
Insurance .....	<b>7,242</b>	7,828
Motor vehicle and travel costs .....	<b>3,490</b>	7,179
Subscriptions .....	<b>2,888</b>	3,298
Lodge expenses .....	<b>1,172</b>	1,113
Bank charges .....	<b>7,707</b>	5,944
Miscellaneous expenses .....	<b>1,875</b>	1,898
Office expenses .....	<b>40,411</b>	40,628
Advertising and promotional costs .....	<b>20,596</b>	31,373
Personnel and Training .....	<b>2,450</b>	10,495
Commissions paid .....	<b>139,604</b>	108,034
Depreciation - freehold property .....	<b>3,114</b>	3,114
Depreciation - computer equipment .....	<b>7,664</b>	5,688
Depreciation - office furniture and equipment .....	<b>4,917</b>	4,975
Recoverable VAT on expenses .....	<b>6,190</b>	(14,235)
	<b><u>710,514</u></b>	<b><u>586,487</u></b>

### 5 TAXATION

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

<b>Current Tax:</b>	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
UK corporation tax .....	<b>11,000</b>	48,500
UK corporation tax re prior years .....	<b>(43,136)</b>	3,122
Tax on excess of income .....	<b><u>(32,136)</u></b>	<b><u>51,622</u></b>

## Notes to the Financial Statements for the year ended 31 December 2009

6 UNREALISED (LOSSES)/GAINS ON INVESTMENTS	2009 £	2008 £
Unrealised (losses) on properties .....	-	(493,955)
Unrealised gain/(losses) on listed investments .....	<b>2,337,938</b>	(2,986,912)
	<u><b>2,337,938</b></u>	<u>(3,480,867)</u>

7 COMMITTEE EMOLUMENTS	2009 £	2008 £
Remuneration and fees .....	<b>96,895</b>	88,673
Expenses .....	<b>6,129</b>	5,986
<b>Total Emoluments</b> .....	<u><b>103,024</b></u>	<u>94,659</u>
Chairman .....	<u><b>4,689</b></u>	<u>4,918</u>
Highest paid member .....	<u><b>66,667</b></u>	<u>73,920</u>

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

	2009 No	2008 No
£0 - £5,000 .....	<b>10</b>	8
£5,001 - £10,000 .....	-	-
£10,001 - £20,000 .....	<b>1</b>	-
£55,001 - £60,000 .....	-	-
£65,001 - £70,000 .....	<b>1</b>	1

Certain Committee members also received commission for introducing new business totalling £280 for the year.

8 INVESTMENTS	Note	2009 £	2008 £
<b>Summary</b>			
Land and buildings .....	(a)	<b>7,585,382</b>	7,175,000
Mortgages on land and buildings .....	(b)	<b>3,476,583</b>	3,476,583
Listed investments .....	(c)	<b>15,548,813</b>	6,860,437
Bank and money market deposits .....		<b>1,673,719</b>	1,670,193
		<u><b>28,284,497</b></u>	<u>19,182,213</u>

## Notes to the Financial Statements for the year ended 31 December 2009

8 INVESTMENTS (continued)	Freehold Properties £	Total £
<b>(a) Land and buildings</b>		
<b>Cost or valuation:</b>		
Balance as at 1 January 2009 .....	7,175,000	7,175,000
Additions .....	410,382	410,382
Disposals .....	-	-
Revaluation in year .....	-	-
<b>Balance as at 31 December 2009 .....</b>	<b><u>7,585,382</u></b>	<b><u>7,585,382</u></b>
The freehold and leasehold properties were revalued by Brownill Bateman, Chartered Surveyors, in December 2008 on an open market value basis.		
<b>(b) Mortgages</b>		
		<b>£</b>
<b>Commercial:</b>		
Balance as at 1 January 2009 .....		3,476,583
Advances during the year .....		-
Repaid during the year .....		-
<b>Balance as at 31 December 2009 .....</b>		<b><u>3,476,583</u></b>
<b>(c) Listed investments at valuation</b>		
	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
British Government securities .....	537,073	560,581
Other listed investments - equities .....	5,948,473	4,117,774
- fixed interest .....	3,120,214	2,049,332
Child Trust Fund investments .....	5,943,053	132,750
<b>Balances as at 31 December 2009 .....</b>	<b><u>15,548,813</u></b>	<b><u>6,860,437</u></b>
<b>Cost of listed investments:</b>		
British Government securities .....	518,380	519,627
Other listed investments .....	10,149,107	8,745,104
Unit linked investments .....	4,890,522	132,750
	<b><u>15,558,009</u></b>	<b><u>9,397,481</u></b>

## Notes to the Financial Statements for the year ended 31 December 2009

9 TANGIBLE FIXED ASSETS	Freehold property	Office furniture & equipment	Computer equipment	Total
Cost or valuation	£	£	£	£
Balance as at 1 January 2009 .....	442,456	41,170	73,221	556,847
Additions .....	-	1,225	6,013	7,238
Disposals .....	-	-	-	-
<b>Balance as at 31 December 2009 .....</b>	<b><u>442,456</u></b>	<b><u>42,395</u></b>	<b><u>79,234</u></b>	<b><u>564,085</u></b>

### Depreciation

Balance as at 1 January 2009 .....	12,456	21,374	66,575	100,405
Disposals .....	-	-	-	-
Charge for the year .....	3,114	4,917	7,664	15,695
<b>Balance as at 31 December 2009 .....</b>	<b><u>15,570</u></b>	<b><u>26,291</u></b>	<b><u>74,239</u></b>	<b><u>116,100</u></b>

### Net book value

As at 31 December 2009 .....	<b><u>426,886</u></b>	<b><u>16,104</u></b>	<b><u>4,995</u></b>	<b><u>447,985</u></b>
As at 31 December 2008 .....	<u>430,000</u>	<u>19,796</u>	<u>6,646</u>	<u>456,442</u>

## 10 CAPITAL COMMITMENTS

	2009 £	2008 £
At 31 December 2009, the Society had capital commitments as follows:-		
Contracted for, but not provided for in the financial statements .....	<b><u>1,000,000</u></b>	<u>-</u>

## 11 DEBTORS

	2009 £	2008 £
Rents due .....	15,441	8,185
Mortgage interest due .....	28,235	31,144
Property Insurance premiums recoverable .....	362	-
VAT .....	-	4,624
Corporation tax recoverable .....	21,185	-
Income tax recoverable .....	-	2,650
	<b><u>65,223</u></b>	<b><u>46,603</u></b>

## 12 PREPAYMENTS AND ACCRUED INCOME

	2009 £	2008 £
Prepayments .....	134,255	35,623
Accrued income .....	43,618	19,781
	<b><u>177,873</u></b>	<b><u>55,404</u></b>

## Notes to the Financial Statements for the year ended 31 December 2009

<b>13 CREDITORS, ACCRUALS AND DEFERRED INCOME</b>	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
Accruals and deferred income .....	124,192	108,268
Amounts due re matured policies .....	31,613	5,300
VAT .....	10,477	-
Corporation tax .....	11,000	48,500
PAYE and National Insurance .....	6,385	5,465
	<u>183,667</u>	<u>167,533</u>

<b>14 (a) LONG-TERM BUSINESS PROVISIONS</b>	<b>With profits</b>	<b>Unit linked</b>	<b>Other</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1 January 2009 as previously stated .....	10,739,546	132,750	5,054,304	15,926,600
Prior year adjustment .....	(337,500)	-	(162,500)	(500,000)
At 1 January 2009 as restated .....	<u>10,402,046</u>	<u>132,750</u>	<u>4,891,804</u>	<u>15,426,600</u>
Transfer from Income & Expenditure Account	1,960,186	5,769,423	(325,858)	7,403,751
At 31 December 2009 .....	<u>12,362,232</u>	<u>5,902,173</u>	<u>4,565,946</u>	<u>22,830,351</u>

<b>(b) FUND FOR FUTURE APPROPRIATIONS</b>	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
At 1 January 2009 as previously stated .....	4,386,039	6,972,712
Prior year adjustment .....	500,000	300,000
At 1 January 2009 as restated .....	<u>4,886,039</u>	<u>7,272,712</u>
Surplus/(Deficit) for the year .....	1,667,681	(2,386,673)
At 31 December 2009 .....	<u>6,553,720</u>	<u>4,886,039</u>

### (c) PRIOR YEAR ADJUSTMENT

The General Reserve of £500,000 was included within Long term business provisions at 31 December 2008 (2007: £300,000). The accounting policy has been amended to exclude it from the Long term business provisions and the comparative figures have been adjusted accordingly. The General Reserve is now reflected in the Capital Statement (Note 16).

### 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.

## Notes to the Financial Statements for the year ended 31 December 2009

### 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.

	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>as restated</b>
		<b>£</b>
Fund for future appropriations .....	<b>6,553,720</b>	4,886,039
Adjustment onto regulatory basis - Resilience reserve .....	<b>(1,300,000)</b>	(750,000)
General reserve .....	<b>(500,000)</b>	(500,000)
Total available capital resources .....	<b><u>4,753,720</u></b>	<b><u>3,636,039</u></b>

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

Approximately 34% of the fund is held in property and approximately 27% of the fund is held in equities. These are sensitive to market movements in general. About 16% 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 15% 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 have been made to the assumed yield to allow for current market conditions.

The basis for valuing the technical provisions has been set by the Actuary. The main assumptions are:

- **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

## Notes to the Financial Statements for the year ended 31 December 2009

### 16 CAPITAL STATEMENT - Continued

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% would lead to a reduction of £250,000 in the technical provisions, and a decrease in the assumed interest rate of 0.50% would lead 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 (which allows for the value of the assets after the fall) was established at 31 December 2008. The Actuary's assessment of the amount required at 31 December 2009 is £1,300,000.

There has been an increase in the available capital resources from December 2008 to December 2009. The main reason for this has been the recovery in market values of investments during the year. An analysis of the change is set out below:

<b>Analysis of change in capital resources:</b>	<b>2009</b>	<b>2008</b>
	<b>£,000</b>	<b>£,000</b>
Total available capital resources at 1 January 2009 .....	<b>3,636</b>	5,672
Premiums less claims and expenses .....	<b>5,410</b>	1,224
Investment income less tax .....	<b>1,324</b>	1,266
Unrealised (losses) / gains on investments .....	<b>2,338</b>	(3,481)
Impairment of property value .....	-	(93)
Change in mathematical reserves .....	<b>(7,096)</b>	(1,059)
Cost of bonus .....	<b>(308)</b>	(243)
Change in general reserves .....	-	(200)
Change in resilience reserve .....	<b>(550)</b>	550
Total available capital resources at 31 December 2009 .....	<b><u>4,754</u></b>	<u>3,636</u>

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE SHEFFIELD MUTUAL FRIENDLY SOCIETY

We have audited the financial statements of Sheffield Mutual Friendly Society for the year ended 31 December 2009, 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 2009.

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 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 2009, 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  
17 April 2010

## Notes

A series of horizontal dotted lines for taking notes.



Authorised & regulated by the Financial Services Authority