Board's Report to With-Profits Policyholders for the year 2022

1. Introduction

The Society's Principles and Practices of Financial Management ("PPFM") describes how the Society manages its with-profits business. This document is available free of charge from the Society's website www.sheffieldmutual.com or by contacting the Society's office.

The Society is required to produce a report for with-profits policyholders stating whether, throughout the financial year covered, it believes it has complied with its obligations relating to the PPFM and setting out the reasons for that belief.

This report covers the financial year 1 January 2022 to 31 December 2022. Version 9 of the PPFM applied from 19 March 2021 until 18 March 2022 when Version 10 was approved. Version 10, which contained updates around the Society's investment practices, applied for the remainder of 2022.

2. Compliance with the PPFM

The Board of Directors (the "Board") confirms that it has complied with its obligations relating to the PPFM throughout 2022. In particular, it confirms that:

(a) the Board has exercised any discretion in the conduct of the Society's with-profits business in accordance with the PPFM, and

(b) any competing or conflicting rights, interests or expectations of the Society's policyholders have been addressed through the application of the PPFM.

In making this declaration of compliance the Board has taken into account advice from the Society's With-Profits Actuary ("WPA") on compliance with the PPFM and discretion exercised throughout the year. A statement from her is annexed to this report. The Board has also received advice and reports from the Society's With-Profits Advisory Arrangement ("WPAA") on compliance with the PPFM throughout the period. The WPAA has reviewed this report and has concluded that it is not necessary to provide a separate statement to policyholders.

3. Governance

The Board is responsible for the effective governance of the Society's with-profits business and, in particular, compliance with the regulatory rules and guidance as set out in the Conduct of Business sourcebook of the Financial Conduct Authority ("FCA").

In managing the Society's with-profits business the Board receives guidance from the Society's WPA and the WPAA. The Terms of Reference for the WPAA are available from the Society's website www.sheffieldmutual.com or by contacting the Society's office.

The WPA throughout 2022 was Cara Spinks of OAC limited and her statement is annexed to this report. All key decisions are reviewed by the WPAA who have provided comments on compliance with the PPFM and the fair treatment of with-profits policyholders throughout 2022.

4. Reasons for the Board's Confirmation of Compliance with the PPFM

Having taken advice from the WPA and the WPAA the Board has reviewed the key provisions and elements of the PPFM, and its conclusions on each area are as follows:

(a) Amounts Payable and Bonus Rates

The Society aims to pay 100% of a policy's asset share on claim. However, asset shares can vary and the effect of smoothing from year to year means that, on maturity, the Society aims to pay an amount that is in the range 80% to 120% of asset share. During 2022, 95% of maturity payouts were between 80% to 120% of asset share with an average payout ratio of 104%. Those policies that fell outside target range all had maturity payouts above 120% of asset share.

On surrender, the Society aims to pay an amount that is within the range 75% to 125% of asset share (based on specimen policy calculations). During 2022 the majority of surrender values were within the target range of 75% to 125%. Those that weren't had payouts in excess of 125% of asset share.

The amount payable on a claim is broadly determined by the sum assured and bonus added to the date of claim. Bonus calculations are informed by the specimen asset shares using standard policy sizes and allowing for the policy expenses assumed in the policy pricing basis.

The Society uses a formulaic approach for the calculation of surrender values for both regular and single premium policies. ISA / Junior ISA policies receive their face value in the event of a claim and a final bonus or a Market Value Reduction ("MVR") may be applied. The application of a final bonus or an MVR respectively increases or reduces the face value by the percentage applied.

The methodologies used to calculate amounts payable and bonus rates have been consistent with the PPFM during 2022.

(b) Bonus Policy and Smoothing

The Society's normal practice is to review annual bonus rates on all business once a year and, at the same time, to consider whether a final bonus or MVR should be declared on any contracts. The normal full review took place in November 2021 and this set the provisional bonus rates for the year ended 31 December 2021 and interim rates for 2022.

At the Board meeting held in January 2022, the Board agreed to uplift the Society's terminal bonuses, based on the November 2021 recommendation, as follows:

- 2% on maturing regular premium endowments

- 5% on ISA subscriptions in qualifying tax years (Types 30 & 31 (Insurance) ISAs issued in 2003 and 2004 and Investment ISA subscriptions in the 2009/10 tax years through to 2016/17 tax years
- 5% of JISA subscriptions which have been in force for 5 years or more
- 5% paid on bonds in force more than 5 years for any investments made in 2014 and onwards. 10% paid on any investments made pre 2014

At the Board meeting held in March 2022, the Board agreed to declare the November recommendations, but agreed to increase the 2022 interim annual bonus rates in light of the upwards shift in long term interest rate expectations, as follows:

Contract	Interim Rate for 2021	Declared Rate for 2021	Interim Rate for 2022
Investment ISA	3.50%	3.50%	3.75%
Investment JISA	3.75%	3.75%	4.00%
Investment Bond	1.50%	1.50%	1.75%
Income Bond	1.75%	1.75%	2.00%
Pension Bond	2.00%	2.00%	2.25%
Tax Exempt Plan (Type 23)	0.50%	0.50%	0.75%
Tax Exempt Plan (Type 43)	0.70%	0.70%	1.00%
Tax Exempt Plan with Life Ass	0.50%	0.50%	0.75%
Regular Savings Plan (Type 27)	0.30%	0.30%	0.50%
Regular Savings Plan (Type 47)	0.50%	0.50%	0.75%
Staff Pension Scheme	3.50%	3.50%	3.75%

Following a product charges review carried out by the Board, the ISA management charge was reduced from 1.50% to 1.25% on 1 August 2022 and was implemented by way of increasing the ISA gross charge to 4.00% (from 3.75% as above), until the update to the administrative system was applied to reduce the charge, effective on 6 April 2023.

In August 2022, the WPA carried out an interim review of bonus rates in light of significant market volatility. The Board agreed to the following recommendations:

- Final bonuses are retained at 2% for regular premium endowment business
- Final bonuses are retained at 5% for all ISA/JISA subscriptions made in tax years 2009/10 to 2013/2014 but reduced to zero for ISA/JISA business written in tax years 2014-2015 and later

- Final bonuses are reduced to 5% for Bond business written prior to 2014 and to 0% for eligible Bond business written in 2014 and later

The normal annual bonus review was carried out by the WPA in November 2022, which made recommendations for the declared annual bonus rates for 2022 and interim rates for 2023.Broadly the recommendations were to declare the 2022 annual bonus rates and to increase the interim annual bonus rates for 2023 by 0.50%.

At the Board meeting held in March 2023 the Board declared the 2022 annual bonus rates and agreed to further increase the 2023 interim annual bonus rates from those recommended in November 2022, as follows:

Contract	Interim Rate for 2022	Declared Rate for 2022	Interim Rate for 2023
Investment ISA	*	*	5.25% (from 6 Apr 23)
Investment JISA	*	*	5.50% (from 6 Apr 23)
Investment Bond	1.75%	1.75%	3.00%
Income Bond	2.00%	2.00%	3.25%
Tax Exempt Plan (Type 23)	0.75%	0.75%	1.75%
Tax Exempt Plan (Type 43)	1.00%	1.00%	2.00%
Tax Exempt Plan WL (Type 24)	0.75%	0.75%	1.75%
Regular Savings Plan (Type 27)	0.50%	0.50%	1.50%
Regular Savings Plan (Type 47)	0.75%	0.75%	1.75%
Pension Bond	2.25%	2.25%	3.50%
Staff Pension Scheme	3.75%	3.75%	5.25%

*ISA declared rates 22/23: April 22 – July 22: 3.75%, August 22 – February 23: 4.00%, March 23: 5.00%
*JISA declared rates 22/23: April 22 – July 22: 4.00%, August 22 – February 23: 4.25%, March 23: 5.25%

The ISA / JISA charge reduced from 1.50% to 1.25% on 6 April 2023.

The Society has no formal smoothing policy but our aim is for payouts from year to year not to vary by more than 10% in normal circumstances. One exception to this is where a change of premium table leads to a change in payout. During 2013 the Society launched a new series of the Tax Exempt Savings and Regular Savings Plans, which have a lower guaranteed sum assured and higher management contributions. To maintain fairness the Board has maintained slightly higher annual bonus rates for these plans, compared to the earlier series.

The bonus reports received from the WPA were consistent with the requirements of the PPFM for the fair treatment of policyholders.

(c) Investment Strategy

The investment strategy of the fund and asset mix according to class of business is reviewed each year and this is reflected in the Society's Investment Policy. The Finance and Investments Committee reviews detailed reports of the assets held by the fund each month and uses this information to monitor performance and compliance with the investment mandates of the fund. In December 2021, the Society's investments were moved from Investec and the various funds with Fidelity and Schroders, to Russell Investments, our new Outsourced Chief Investment Officer. Investments have been managed according to the Society's Investment Policy throughout 2022 and further details on transactions and asset mix can be found in the 2022 Report & Accounts.

(d) Charges and Expenses

The Society allocates expenses to policy asset shares according to the amounts assumed in the premium tables, with the balance of expenses being met by emerging surplus or free reserves. From 2013 the Board decided that a proportion of the surplus emerging from the expense charges arising from the Child Trust Fund ("CTF") would be used to cover the Society's renewal costs in excess of the allowance in the premium tables. This practice continued for 2022 and is expected to be maintained on an annual basis, taking into account the run-off of the now maturing CTF policies. The premium table expenses, which are also set out in the product key information documents, are incorporated in the specimen asset share calculations. Fund management charges are set against investment income. The Society's allocation of expenses in 2022 is consistent with the PPFM.

It has been the Society's practice to allocate roughly a third of the available expense loading on CTF funds to the calculation of asset share investment returns in order to support and enhance the bonus declaration. This has been the practice from 2013 to 2022. The additional return has increased the investment return credited to asset shares by 0.16% to 0.33% each year.

(e) Exposure to Business Risk

The Society's risk management process is set out in the 2022 Report and Accounts. As a Solvency II insurer the Society completes an Own Risk and Solvency Assessment ("ORSA") in accordance with regulatory requirements. The purpose of the ORSA is to enable the Board to assess, monitor and manage the Society's risks relative to the medium-term business plan and to understand how much current and future capital is necessary to cover those risks having considered other mitigating factors. The Society has no exposure to business risk outside the normal risks associated with the ongoing transaction of insurance business.

(f) Management of Mutual Capital

The Society maintains a level of free assets which enables it to invest in a wide range of investments and to fund the writing of new business. A target range is set for the free asset and solvency ratios and if the free assets fall outside these ranges then remedial action would be taken. The Society can confirm that the management of the mutual capital has taken place in accordance with the requirements of the PPFM and that the free asset and solvency ratios were within the target ranges throughout 2022.

(g) Volume of New Business

The Society has reviewed its new business plans in conjunction with the WPA and considers the current plans to be acceptable in terms of the PPFM's requirements. Specifically, the plans can be supported by the existing margins of the with-profits fund or from the mutual capital without detriment to the interests of existing policyholders.

(h) Communication with Policyholders

The Society aims to meet the information needs of policyholders by ensuring that communications are clear, fair and not misleading, and that they have been consistent with the PPFM. Bonus statements in relation to 2022 were sent to all with-profits policyholders in March/April 2023 and a Member Newsletter was sent along with the Notice of AGM in May 2023. The Society's SFCR and Report and Accounts are available on the Society's website. Details of the Society's investment strategy and asset mix were outlined in the Summary Report & Accounts and Newsletter.

Jamie Bellamy
Chief Executive
for and on behalf of the Board of Directors **19 May 2023**