

Board's Report to With-Profits Policyholders for the year 2025

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 2025 to 31 December 2025. Version 12 of the PPFM applied from 22 March 2024 until 21 March 2025 when Version 13 was approved. Version 13 applied for the remainder of 2025.

2. Compliance with the PPFM

The Board of Directors (the "Board") confirms that it has complied with its obligations relating to the PPFM throughout 2025. 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 may also make a separate statement to with-profits policyholders in addition to this report. 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 2025 was Cara Spinks of Broadstone Regulatory & Risk Advisory Limited. The WPA advises the Board on the key aspects of the discretion to be exercised in respect of the Society's with-profit business. All of the recommendations made by the WPA are reviewed by the WPAA who have provided comments on compliance with the PPFM and the fair treatment of with-profits policyholders throughout 2025.

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 2025, almost 100% of maturity payouts were between 80% to 120% of asset share and the average payout ratio of all policies maturing was 96%.

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 2025 95% of surrender values were within the target range of 75% to 125%.

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 2025.

(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.

A full review took place November 2024, and this set the provisional bonus rates for the year ended 31 December 2024 and interim rates for 2025. At the Board meeting held in March 2025, the Board agreed to declare the November recommendations and increase the interim rates for 2025.

Another full review was carried out in November 2025, which made recommendations for the declared annual bonus rates for 2025 and interim rates for 2026. Broadly the

recommendations were to declare 2025 interim annual bonus rates and to maintain the same rates for the 2026 interim rates for all products except the endowment products which were to be increased by 0.25%. At the Board meeting held in March 2026 the Board declared the 2025 annual bonus rates and chose to implement the November 2025 recommendations and increase the 2026 interim annual bonus rates for endowment products by 0.25% and maintain all other product rates.

The Society has no formal smoothing policy but the 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.

Some plans have been issued at different levels of guaranteed sums assured. In order to maintain fairness, the Board declares slightly higher or lower annual bonus rates for these plans depending on the level of guarantee awarded.

The bonus reports received from the WPA were consistent with the requirements of the PPFM for the fair treatment of policyholders and in delivering good outcomes to members under Consumer Duty.

(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. Investments have been managed according to the Society's Investment Policy throughout 2025 and further details on transactions and asset mix can be found in the 2025 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.

Any emerging expense surpluses accrue to the with-profits fund's surplus overall and are used for the benefit of all with-profits policyholders.

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 2025 is consistent with the PPFM.

(e) Exposure to Business Risk

The Society's risk management process for business risk is set out in the 2025 Report and Accounts. As a Solvency UK 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 surplus assets in excess of Own Funds which enables it to carry investment risk and to fund the writing of new business.

A target range is set for the solvency ratio and if the solvency ratio moves outside range then the Board may decide to take action to restore solvency within range.

The Society can confirm that the management of the mutual capital has taken place in accordance with the requirements of the PPFM. The solvency ratio was higher than the upper end of the target range for solvency at the start of 2025, however actions taken over 2025, such as increasing bonus rates, have been in line with the PPFM and the Society has concluded that policyholders have been treated fairly and in accordance with the PPFM, including the principles of smoothing.

(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. Under Consumer Duty, the Society also aims to deliver good outcomes to its members. Bonus statements in relation to 2025 were sent to all with-profits policyholders in April 2026 and a Member Newsletter was sent along with the Notice of AGM in May 2026. 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

15 May 2026

With-Profits Actuary's report to with-profits policyholders for the year 2025

As With-Profits Actuary to Sheffield Mutual Friendly Society ("the Society") I am required to report to the with-profits policyholders every year on whether, in my opinion, the with-profits business of the Society has been managed over the year in a way that takes their interests into account in a reasonable and proportionate manner.

Policyholders should not rely solely on the information contained in this report when making financial decisions and this report does not represent financial advice.

I have been With-Profits Actuary to the Society throughout 2025. I can confirm that, throughout 2025, I have had full access to the Board of the Society to ensure that I have been informed and consulted on all important matters relating to the transaction of with-profits business.

In my opinion, the annual report by the Society to its with-profits policyholders, and the discretion exercised by the Society in respect of 2025, has taken the interests of its with-profits policyholders into account in a reasonable and proportionate manner.

I believe that the Society has complied appropriately with the requirements of its Principles and Practices of Financial Management. I also consider that the Society has paid due regard to the information needs of its members.

The Society's Board has various overarching obligations under the FCA's Consumer Duty, which came into force for open products on 31 July 2023 and for closed products on 31 July 2024. The PPFM plays an important role in the governance of with-profits business and helping the Board achieve good outcomes for members.

I have based my opinion on the information provided to me by the Society, and on my own knowledge and investigations during 2025. In preparing this report I have taken account of the rules of the Financial Conduct Authority and the guidance requirements of the Actuarial Profession and the Financial Reporting Council.



Cara Spinks FIA, C.Act
With-Profits Actuary to Sheffield Mutual Friendly Society