

Report & accounts

# 2021



Sheffield  
Mutual Est. 1892



Sheffield  
Mutual Est. 1892

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# Overview

Total assets including the Child Trust Fund (CTF) increased by **13%** to a record **£206 million**



Assets excluding the CTF increased by **11%** to **£157 million**

Traditional membership increased by **3%** to **12,627**



Total number of policies increased by **6%** to **18,498**

Including the CTF we now have **81,264** policies and accounts



# What our members say

**James O'Dwyer**



“Excellent service from the moment I contacted them. Very polite staff and with no hard sell at all. Their range of products is very good and when you take out a policy and become a member you're made to feel like family.”

**Sarah Carswell**



“Very fast and simple application process. Exactly what I was looking for from a savings plan. Would recommend to family and friends.”

**Amer Sahota**



“Always a quick and efficient service, be it on the phone or via email. The documents get posted out very quickly and it is very much a seamless process. I have recommended family members to Sheffield Mutual too!”

 **REVIEWS.io**

# Chairman's welcome



**Welcome to our Strategic report for the year 2021. The year has been one of good progress whilst working within the new normal of operating a business whilst dealing with the uncertainties of Covid 19.**

2021 saw our total assets increase to more than £200m, which means that our assets have more than doubled since the year 2015. Our membership is now in excess of 12,600. We have also been able to declare our interim bonus rates as final bonuses. This has all been achieved whilst complying with the lockdown restrictions at the start of 2021 when office employee numbers had to be greatly reduced with many working from home. I would like to thank our team for their flexibility over the last 12 months by altering working practices as the situation required.

We have continued to invest in directly acquired commercial property during the year. We have disposed of some of our smaller property investments over the year so that we can concentrate on our larger holdings. During 2022 we plan to continue with property opportunities and also work with our advisers to diversify into some non-direct holdings via property funds. We have continued to invest in equities, fixed interest and alternative assets. In 2021 we appointed a new fund manager, Russell Investments, who will work with us to provide a more diversified portfolio both in terms of asset class and fund manager whilst remaining within the objectives we have set within our PPFM.

Our new website has been launched with phase one of the website project now complete. The next phase of the project is currently out to tender with the objective of providing a website giving increased functionality for members including features such as viewing balances and statements and updating details. We have an ongoing programme of website development planned over the next couple of years.

The continued expansion of your Society during 2021 resulted in an increase in our staffing levels taking on five new members of staff with total number of employees increasing to 21 in all. We value our relationship with our team and during 2021 no employees left the Society, and no one was furloughed or offered redundancy. Our head office is now almost at capacity, so during 2022 we will be looking at how we can continue to provide a comfortable and safe working environment for all our employees.

Our charity award for 2021 produced a good response from our members when we asked you to nominate and vote for charities to be supported by Sheffield Mutual. We concentrated on smaller charities. The winners were Ravens Rescue which is a vet supported charity providing medical care to animals, Abbie's Army which helps children with brain cancer and Rush House which provides accommodation and education for vulnerable young people.

***“As a mutual organisation, we will always put you first in our decision making.”***

Including executives, we now have 12 board members. In order to improve our governance, we have now established two new board sub committees. The Nominations Committee chaired by our Senior Independent Director (SID) was formed in early 2021 and has taken responsibility for board succession planning and new board appointments. The Remuneration Committee chaired by myself was formed in the second half of 2021 and takes responsibility for making recommendations to the Board on executive and board remuneration.

I am also delighted to report that, following the relaxing of government working from home restrictions, we have held board meetings on a face-to-face basis since July 2021. Our meetings have worked well online but face to face meetings are much preferred. Going forward we plan to have board meetings face to face but in view of the number of subcommittee meetings we are likely to hold most subcommittee meetings online.

At the AGM in 2022 our longest serving board member Stephen Birch will retire from the Board. Stephen, with his long-standing connections to the Society, has been particularly instrumental in promoting members' interests within the Board as

our dedicated Ambassador to members. I would like to thank Stephen for his many years of service to Sheffield Mutual and its members. The Board will look to appoint a new member Ambassador in due course.

We look forward with confidence to 2022. Sheffield Mutual will continue to prioritise your interests. We will aim to provide you with an exceptional and trustworthy service through easy-to-understand products, with the strongest returns possible. As a mutual organisation, we will always put you first in our decision making.



**Stephen Hindmarsh**  
Chair of the Governing Body  
30 March 2022

# Chief Executive's review



**In 2021, we were again faced with the ongoing operational challenges of the pandemic, however, the Sheffield Mutual team showed a great deal of resilience to ensure the Society had its most successful year to date in many key areas.**

## Dealing with the pandemic

The Christmas and New Year's celebrations were fairly muted upon 2021's arrival as we entered into the third national lockdown. However, as summer drew closer more social restrictions were lifted, vaccinations were rolled out and optimism returned, particularly to stock markets. Throughout the year we were very conscious that customer service levels within larger financial institutions were faltering, as I often experienced first-hand. As always, we aimed to maintain our service standards and I believe that this helped the Society to achieve better than expected levels of business.

Operationally, we were able to work effectively from home where necessary using equipment and software purchased earlier in the pandemic and were therefore able to adapt to the fluctuating restrictions. An employee rota system was implemented to offer more flexibility to work remotely but also ensuring individuals didn't feel isolated or disconnected from their colleagues for a prolonged period. In terms of the Society's financial strength, we were able to ride out the investment market instability, owing to the diverse nature of our investments, Board oversight and loyalty of members.

## Members and policies

To provide reassurance we aimed to keep all methods of communication open and respond to enquiries as a priority. We also aimed to offer stability and consistency through our product rates and marketing. With the furlough scheme ending during the year and employment circumstances being affected we again offered members more flexibility in terms of catching up with premium payments.

The Society achieved growth within its membership base and the total number of active policies in 2021. This was driven by the success of our Investment Bond, new premiums and top-ups to our Investment ISA. This was mainly due to our ISA being less risky than a conventional stocks & shares ISA and many cash ISAs offering little in the way of a decent return, falling in line with the low Bank of England base rate. Our new and easy to use website also assisted in driving up online engagement.

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

Year ending	Number of members (excl CTF)	Number of policies (excl CTF)
31.12.19	11,941	16,518
31.12.20	12,258	17,379
31.12.21	12,627	18,498

Year ending	Number of New members (excl CTF)	Number of new policies (excl CTF)
31.12.19	907	1,987
31.12.20	929	1,927
31.12.21	1,092	2,328



## Child Trust Fund maturities

The number of Child Trust Fund (CTF) accounts fell slightly due to maturities commencing from September 2020. The CTF team has aimed to trace and communicate with all maturing accounts to ensure that all savings are handled in line with how the policyholder would like their investment to be dealt with at the age of 18. Having over 60,000 policies, we have implemented procedures to ensure that the process is as straightforward as possible. On maturity, the policyholder has a number of options, including remaining invested with us in our adult Investment ISA, claiming the money or keeping the money held within a 'matured CTF' account until they're ready to decide. I'd encourage any parent, relative or carer of a child born between September 2002 and 2 January 2011 to make sure they're aware of any CTF monies held on behalf of their child.

Year ending	Number of CTF accounts
31.12.19	63,223
31.12.20	63,077
31.12.21	62,766

## Policy returns and bonuses

The Board declared annual policy bonuses worth in excess of £2.2 million for members in 2021 and all with-profits bond, ISA and endowment policies had their interim bonus rates declared in full. The Board also reintroduced terminal bonuses on qualifying years for the Investment ISA and maintained final bonus rates on maturing regular premium endowments and bonds encashed after five years.

## Premium income and assets

The Society received £21.7m of premium income in 2021, which is a 22% increase on 2020, demonstrating that our product rates remain highly competitive.

Subscriptions and external transfers to the Investment ISA and Junior ISA generated circa £12 million (55%) of the total. Our Investment Bond and Income Bond also performed strongly, totalling £6.9 million payments received for the year and making up around 32% of premium income for 2021.

Contributions to our regular savings products, including the Tax Exempt Savings Plan, amounted to £2.6 million and, therefore, accounted for around 12% of the total.

Another area of growth for the Society has been in terms of our asset base, which has increased by 13% to a record £206 million. Excluding the CTF, the Society's assets increased by 11% to £157 million.

The Society's unit-linked Stakeholder Child Trust Fund attracted premium income of £0.61 million during the year, made up of transfers from other providers and additional subscriptions to existing accounts.

Year ending	Premium income (excl CTF)	Assets (excl CTF)
	£'000	£'m
31.12.19	20,737	128.2
31.12.20	17,772	141.0
31.12.21	21,656	156.5

Year ending	CTF premium income	Total assets (incl CTF)
	£'000	£'m
31.12.19	511	175.0
31.12.20	484	183.0
31.12.21	609	206.3

## Investments

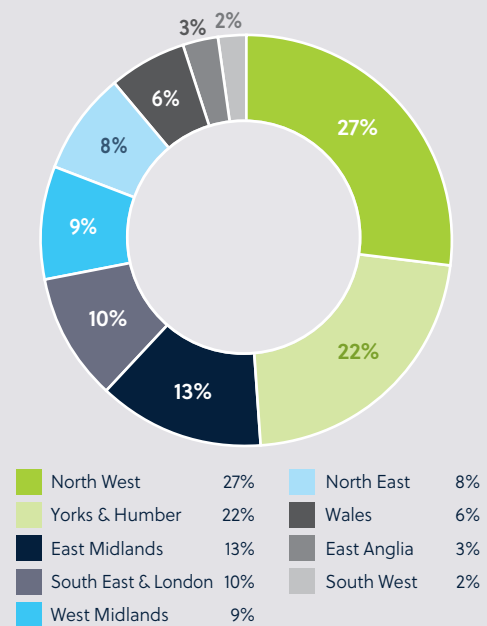
In 2021 we saw a rapid rise in inflation, the Bank of England increased the base rate to 0.25% in December and spells of market optimism with news of the vaccine rollout. UK stock markets bounced back after a turbulent 2020, with the FTSE 100 finishing up 14.3% on the previous year. The spread of both the Delta and subsequently the Omicron variants did however create market volatility. The pandemic, Brexit fallout and the Suez Canal blockage created supply shortages fuelling inflationary fears, whilst the gas shortage led to increased energy costs. At the start of 2022 we're now seeing the impact on household bills, with the Russian invasion of Ukraine creating further uncertainty. Despite a number of disruptive factors, the Society's available capital increased from £19.158 million to £23.827 million and remains well above the capital requirement; thereby maintaining a strong financial base. The Society's investment income was £8.77 million and after taking account of the unrealised gains the overall return on the non-CTF assets for the year was 4.5%.

During the year, the Society took the decision to appoint Russell Investments as our Outsourced Chief Investment Officer (OCIO). This means that Russell Investments will take responsibility for Sheffield Mutual's investment portfolio, excluding directly held property, business savings accounts and the Child Trust Fund. The appointment aims to improve asset and manager diversification, dynamism to manage the downside risks and deliver enhanced returns for our members. Diversification of our investments has been a strategy of ours for several years and we see the OCIO support from Russell's as the next step. Russell Investments also has the resources to better incorporate Environmental, Social and Governance (ESG) investments, including its global low carbon solution to reduce the portfolio's carbon footprint, whilst providing specialist insights on key regulatory changes on ESG issues and their impact on the overall investment strategy. I would also note that the Society's Board still has the ultimate strategic investment decision to ensure investments align to member's expectations and our desired asset mix.

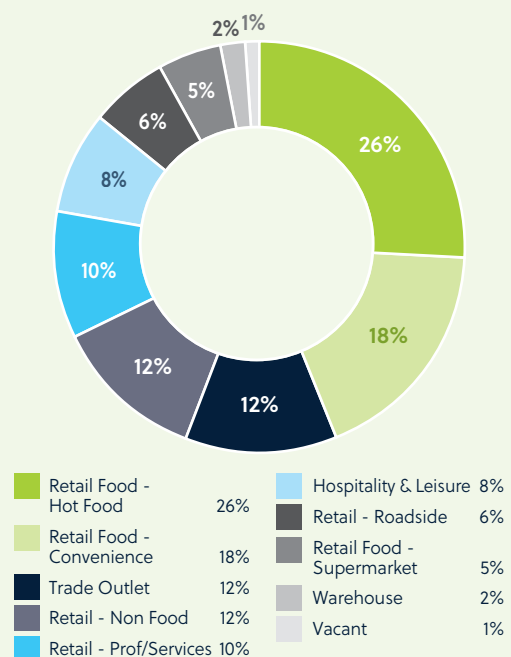
With regards to property investments, high street retail continued to suffer as a result of the measures to tackle the pandemic. Investor demand, however, has shown that strong property investments in the right locations remain attractive. During 2021 the Society purchased an autocentre in Castleford, a drive through coffee shop in Wolverhampton and funded the development of multi-tenanted units in Spalding. Three smaller retail units were sold during the year. The Society owns 46 geographically diversified commercial properties, generating a 7% yield in 2021, with a total value of circa £46 million. As can be seen by the charts we hold properties throughout the country, with a higher concentration in regions closer to the Society's heartland. It is also worth highlighting that vacancy is extremely low at

1% of the portfolio value. The Board will continue to make investment decisions for the long-term by focusing on quality, balance and diversity.

### % of property portfolio value within each region



### % of property portfolio value within each sector



## Asset mix

	2021	2020	2019
	%	%	%
<b>Property</b>	33.83	34.85	37.09
<b>Mortgages on land and buildings</b>	1.65	0.74	0.80
<b>Listed investments:</b>			
- equities	26.09	31.08	29.62
- fixed interest	26.99	28.94	28.15
- alternative assets	3.39	2.83	2.24
<b>Cash (excluding current account funds)</b>	8.05	1.56	2.10
	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

The table above shows the asset split of the Society's investment fund at the end of 2021, with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

The appointment of Russell Investments as OCIO in December 2021 involved investment fund disposals and resulted in a higher cash balance at the year end. Throughout the earlier part of 2021 the cash balance was held at 1-4% of overall assets.

## Looking ahead

2021 was the end of my first three year term as Chief Executive of Sheffield Mutual and I'm pleased to confirm that our strategic targets were achieved. The targets for the next strategic term (2022-24) will largely be to continue with the organic growth of the business by offering a first rate service. We will also look to invest in our online offering and to take more proactive action around reducing our carbon footprint.

At the end of the 2020 we rolled out our new website as part of a larger project. The second phase is now underway to improve our member portal by providing increased online functionality, which will include features such as viewing balances and statements and making payments, meaning that members can gain secure access to their policies at any time. This will be an extensive project for our team and we will ensure that it is completed to the expected high standard.

Much has been said around the need to be 'green' and what we should be doing to tackle the climate crisis. It has become increasingly clear that we should be taking positive action on matters we can control internally and aim to make a difference via the investments we make on behalf of our members. The 'right' actions are debatable and is an area that is still evolving in terms of meaningful data that can be used to compare the approach taken by different organisations. We therefore continue to educate ourselves as a Board and are implementing measures that we can control and clearly identify any benefits gained, without taking knee jerk reactions. We have also appointed Russell Investments to guide us with regards to the investments we make, with the ultimate investment decisions still being taken by the Society's Board. Our Chief Operating Officer provides more details on pages 12-13.

The Russian invasion of Ukraine has led to significant economic sanctions being placed on Russia, including cutting Russia off from the international financial system. These sanctions have resulted in a slump in the Rouble and the Bank of Russia more than doubling its interest rate. The Society has negligible direct exposure to Russia but the ongoing horrendous events in Ukraine have impacted global markets. Stock markets experienced an initial shock, with our non-property investments down by around 5% as at the end of February 2022, however as at the time of the approval of these accounts there has been a recovery. We have no material concerns relating to the effect of the war in Ukraine on the Society's business. The UK Bank of England base rate has also increased to 0.75% as at the end of March 22 to tackle inflation. The Board is mindful of the risks faced and manages the Society's investments for the long-term.

Covid restrictions have been further eased since the turn of 2022 and the operations of the Society are gradually returning to a more normal state, with almost all staff back in the office and our members making appointments to visit us again.

## Summary

2021 was a hugely successful year for the Society in many key areas. Despite a second year of the pandemic, the Sheffield Mutual team has continued to provide an excellent service to our members, as highlighted by the positive reviews that we received throughout the year. I would also like to thank my fellow Executives and Board members for their continued support and useful guidance offered throughout the year.

I would finally like to thank our loyal members. We are very appreciative of your feedback and engagement. As a mutual and a smaller financial institution, we're able to listen and promptly implement recommendations where appropriate. The next few years promise to be very exciting, with investment being made to futureproof the Society to ensure that we continue to offer excellent rates to members on our products for many years to come.



**Jamie Bellamy**  
Chief Executive  
30 March 2022

# Chief Operating Officer's report on climate change

The Board sees unmitigated climate change risks posing challenge to Sheffield Mutual's financial, operational and systemic risks in the short, medium and long-term. In 2020 climate change risks were integrated into the Society's risk management system and have since been carefully monitored and discussed at the Audit and Risk Committee and at full Board throughout 2021. We have also been working with Russell Investments to ensure that our with-profits fund is transitioning to sustainable investments and to ensure that Environmental, Social, and Governance (ESG) considerations are

embedded within investment decisions. As a mutual society, the Board believe that it is our responsibility to go beyond the regulation and ensure that we do the right thing in terms of our impact on climate change, social and governance concerns for the sake of our members, community and the future of the Society.

This section outlines the Society's climate change disclosures in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD):

	Achievements so far	Current priorities	Future goals
Governance	<p>The Chief Operating Officer was assigned responsibility for the financial risks of climate change.</p> <p>The Chief Operating Officer requested a Financial Risks of Climate Change Roundtable be set up with the Association of Financial Mutuals (AFM).</p> <p>All climate change risks are included in the Society's risk management system; considered by the Board with regular oversight from the Audit and Risk Committee.</p> <p>Board training on ESG, including climate change risks delivered through the AFM.</p>	<p>Ongoing training on climate change including a granular understanding of underlying assets from various ESG perspectives.</p>	<p>The Society's Chief Operating Officer to chair the AFM's Climate Change Roundtable in January and February 2022.</p> <p>Continue with Board level training on climate change and its risks.</p>
Strategy	<p>The Board approved the Society's Climate Change Strategy and Objectives at the July 2021 Board meeting.</p> <p>The Society offset its carbon footprint of 67 tonnes of CO2 in 2021 with 70 tonnes of carbon offsetting with a tree-planting project in North Yorkshire through 'Make It Wild'.</p> <p>Removed, where possible, all one-use plastic from use in the office.</p> <p>Paper for all member literature and product documentation is produced using FSC and/or PEFC responsible sources.</p> <p>Introduced video conferencing for sub-committees.</p> <p>Donated to the National Trust to plant 1,000 Sq. metres of woodland.</p> <p>All electricity consumed at the Society's office is 100% renewable. The office does not use gas.</p>	<p>Reduce paper waste across all business services.</p> <p>Continue with sub-committees over video conferencing to cut on fuel usage.</p> <p>Working with Russell Investments to deliver a sustainable ESG positive with-profits fund.</p> <p>Explore projects to offset carbon emissions.</p> <p>Deliver a new product specifically focussed on ESG and sustainability.</p> <p>Introduce sustainability and ESG measures in the with-profits fund.</p> <p>The Society's waste which cannot already be recycled from April 2022 will no longer be going to landfill. Partnering with a local waste management firm in order to achieve this.</p>	<p>Work towards absolute zero carbon emissions from head office operations through a reduction in energy usage and with technology (where available).</p> <p>Work with our tenants and advisors on how to best approach reducing the carbon footprint of our commercial properties.</p> <p>Work with Russell Investments to manage investments with the biggest polluters holding them to account through engagement rather than relying solely on divestment.</p> <p>Understand and calculate the carbon footprint and greenhouse gas emissions of the with-profits fund.</p>

	Achievements so far	Current priorities	Future goals
Risk Management	<p>Climate change identified and reported as a separate risk category.</p> <p>Climate change risks are managed and monitored by the Chief Operating Officer and presented to the Audit and Risk Committee regularly with oversight from the Board.</p> <p>Board has followed climate change training throughout 2021 through the AFM.</p> <p>Chief Operating Officer signed up to be a member of Chapter Zero.</p> <p>Worked with the Chief Actuary on climate change scenarios to test the long-term impact of climate change on the Society and to assess the Society's own capital requirements.</p>	<p>Developing stress test scenarios to test the financial risks of climate change on the Society.</p> <p>Monitoring climate change risks.</p> <p>Monitoring stress test scenarios to test the impact of climate change on the Society and the impact the Society has on climate change.</p>	<p>The Society's Risk and Compliance team will be supporting the testing of a scenario analysis tool for use by smaller firms as part of the work by the Climate Finance Risk Forum (CFRF) in early 2022.</p>
Metrics and Targets	<p>Climate change metrics are built into the Chief Executive and Chief Operating Officer's annual bonus scheme.</p> <p>The UK equities portfolio was measured using Sustainalytics the Society's target is to be 5% below the UK average benchmark.</p> <p>Carbon neutral through carbon offsetting in 2021.</p>	<p>Working with Russell Investments on ESG metrics and targeting to continuously improve on the current metrics and transparency of the Society's with-profits fund.</p>	<p>Continue to work with OAC, Russell Investments and other third parties, and the Board to create a suite of metrics and targets.</p> <p>Work towards reducing carbon usage at head office and work towards becoming carbon neutral.</p> <p>Reduce the use of paper across the business.</p>



**Paul Galloway**  
 Chief Operating Officer  
 30 March 2022

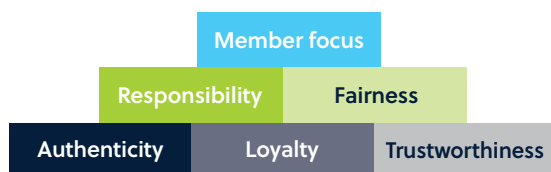
# Strategic management

## Business model

Our Purpose: "Prioritising our members' interests, we aim to provide an exceptional and trustworthy service through easy-to-understand products, with the strongest returns possible."

Our Mission: "To be the UK's most trusted and member focussed independent mutual friendly society."

### Our core values:



The Society provides a range of long-term savings, investment and protection policies to meet the needs of members and their families, including the popular Tax Exempt Savings Plan, which is exclusive to friendly societies, ISAs, Junior ISAs, Investment/Income Bonds and the Whole of Life Plan. These products are available through the following distribution channels:

- Direct – online, postal and telephone applications, digital advertising, printed heartland advertising and newspaper editorials
- Social proof - member referrals (Tell-a-Friend), advocates, Community Fund, social media
- Intermediaries - Financial Adviser advised and non-advised sales and non-advised referrals

The Society seeks to attract members by demonstrating higher potential investment returns over the life of a policy and aims to retain them through a combination of performance, following high standards of ethics and principles, and delivering consistently high levels of personal service.

The Society strives to be efficient relative to its scale and this is achieved through robust cost management. The pursuit of controlled growth and consistent investment yields are seen as key drivers of sustainability and stability in terms of ongoing financial strength. This financial strength is augmented by a mutual model, which allows the Society to distribute returns to members by way of policy bonuses.

The Society's key strategic priorities are as follows:

- Meet its contractual obligations to policyholders
- Deliver higher potential returns over the life of a policy
- Maintain a healthy solvency ratio

## Principal risks and uncertainties

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and the Board seeks to adopt a medium-to-low risk appetite in accordance with the scale and nature of the Society's business. It seeks to undertake a structured approach for the effective management of risk and aims to employ proportionate tools and techniques to enable it to deliver its objectives in a controlled manner. The principal risks are operational and financial, with the latter including solvency risk, market risk, credit risk, insurance risk and liquidity risk. The risk management framework is explained within the Board's Report and the Board is satisfied that the Society has robust risk and governance procedures and sufficient capital to deal with a range of risks and adverse scenarios, both now and over the business planning period.

## Future prospects and viability statement

The formal analysis of risks, which is carried out at least annually as part of the Own Risk and Solvency Assessment ("ORSA") process, is used to assess whether the Board has a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the three-year business planning period. The Board believes that three years is an appropriate period given the Society's scale and scope of operations. This process, which includes appropriate stress and scenario testing, together with the Board's ongoing monitoring of risks and controls, suggests that there are no current, emerging or anticipated risks which could materially alter the Society's risk profile, strategy or viability in the medium-term. This assessment is unqualified and based on realistic planning assumptions as outlined in the Society's approved business plan.

## Strategy and objectives

The Board's medium-term strategy is to grow the Society's business organically at a controlled rate and, in addition to developing our various channels of distribution, we will continue to remain vigilant for new product areas which may complement the Society's core activities.

We are attracting over two thirds of our new business direct from members of the public through advertising campaigns, online marketing and recommendations. An increasing number of new policies are applied for via our website ([www.sheffieldmutual.com](http://www.sheffieldmutual.com)) and telephone. We continue to invest in our IT infrastructure, with more online member facilities to be introduced in the coming years.

The Society's with-profits Investment ISA, which offers investors a potentially higher return than a cash ISA but without the risks normally associated with a stocks & shares ISA, will continue to generate a significant proportion of our premium income. Intermediaries remain an important part of our distribution mix and we will retain a focus on maintaining mutually beneficial relationships with introducers and financial advisers.

In 2021 we implemented various initiatives and policies, in line with recommendations made by the Climate Financial Risk Forum (CFRF). Our Chief Operating Officer has provided more details on pages 12-13.

In line with our history, heritage and ethical values, Sheffield Mutual is committed to helping good causes in the course of doing business. During 2021 we donated more than £17,500 to various charities and good causes and we have made a commitment to maintain our support in 2022.

On 1 January 2021 the Society became an incorporated organisation; incorporation does not mean that the Society has lost its mutual status but allows for a more updated approach to the running of the business. The main difference being that Trustees are no longer required to own property on behalf of the Society; the Society itself can now directly own property. Incorporation does not alter the fact that the Society is a successful independent friendly society, well run, financially strong, ethically minded and with good prospects for growth.

***“The Board's medium-term strategy is to grow the Society's business organically at a controlled rate.”***

# Board of Directors

## **Stephen Hindmarsh** Chairman

Stephen is a retired solicitor with more than 40 years' experience in private practice. His specialist areas of practice were commercial property and friendly society work. He was elected Chairman following the 2018 AGM. Stephen also has a role as a volunteer with Salford Citizens Advice Bureau. He provides general advice on issues arising for their clients and also works with their specialist team providing debt advice. Stephen is married and they have three sons. He is treasurer of the Manchester Area Cross Country League and enjoys cycling, swimming and walking. He can also play the piano.

## **Jan Barber** Senior Independent Director

Jan has over 20 years' experience in the mutual financial services sector, having held various senior positions in two medium-to-large building societies. Jan served as Chairman from 2015 - 2018 and brings a wealth of relevant skills to the Board, particularly in the areas of customer service, sales management, team performance and regulatory compliance. Having been semi-retired since 2009, Jan finds time to help and support local charities close to her home in Leeds and in her spare time she enjoys gardening, walking and reading.

## **Jamie Bellamy, FCCA, PgD, LLB (Hons)** Chief Executive

Jamie joined the Society in 2014 as Finance Manager, became the Finance Director in 2015 and the Chief Executive in 2019 and continues to oversee the Society's finance function. Jamie qualified as a certified accountant within a large regional accountancy firm, assisting small-to-medium businesses and preparing statutory financial accounts. Jamie also has experience of working within risk management at a global law firm. Jamie enjoys running and playing a variety of sports. He lives with his wife, son and daughter in South Yorkshire.

## **Paul Galloway, BA (Hons)** Chief Operating Officer

Paul joined the Society in 2018 as Chief Operating Officer and is responsible for Risk and Compliance Management, as well as Member Services, Operations, IT and managing the risks associated with climate change. Paul has held various management positions in products, risk, governance and compliance at a large building society, as well as various roles at a global insurance and pensions firm. Paul is a supporter of charities and is the Chair of Trustees for RSPCA Sheffield Branch, Chair of Trustees for RSPCA North Tees Branch and also the Regional Vice-Chair representing Yorkshire and the Northeast for the national RSPCA charity. Paul enjoys music, films, comedy and hiking, and lives in South Yorkshire with his partner and their three cats.

## **Dawn Webb, MCIM** Chief Commercial Officer

Dawn joined the Society in 2008 and is now in her second year as Chief Commercial Officer. She is responsible for creating and implementing the Society's sales, marketing and business development strategies whilst leading the Marketing & Communications and Business Development teams. Dawn has over 20 years' experience in the retail/financial services sector, spending several years in a management level role at a large UK bank before joining Sheffield Mutual. Dawn has a qualification in Professional Marketing with the Chartered Institute of Marketing. Dawn is a keen birdwatcher who loves nature and travelling in the campervan with her husband and their two dogs.

## **Stuart Plant-Hately, ACA, FCSI, BSc (Hons)** Chair of the Audit & Risk Committee

Stuart joined the Society in 2019 and has extensive investment, risk and control management experience. Stuart previously held a directorship at Investec Wealth & Investment Fund Managers Ltd and was Head of Investment Operations at Royal Liver Assurance Ltd and CFO and COO of Royal Liver Asset Managers Ltd. Stuart also has friendly society experience working as a national specialist with KPMG. Stuart enjoys mountain biking, swimming and skiing.



### **Neil Spawforth, MRICS**

Chair of the Finance & Investments Committee

Neil has over 20 years' experience as a Chartered Surveyor and his knowledge of commercial property is of great value to the Society. Neil has previously served as a Trustee from 2017 to 2021 and as Vice Chair from 2012 to 2015. Neil is employed by Equitix Management Services and is involved in the management of various health and education projects across Yorkshire and the North of England. Neil has been a member of the Society since 2007 and lives in West Yorkshire, with his wife and their two children.

### **Stephen Birch, MIET**

Non Executive Director

Stephen has worked in the power supply industry for more than 45 years and after retiring from full-time employment in 2015, he continues to work as an electrical power engineer on a self-employed basis. Whilst at National Grid, Stephen was a trade union representative for over 20 years. Stephen was a lodge secretary for 28 years and has served on the Board since 1989 including as President from June 1998 to 2000 and as Vice Chair for two terms. Stephen's hobbies include theatre, DIY, gardening and historic vehicle preservation.

### **Anthony Burdin**

Non Executive Director

Tony joined the Society in 2009 as Chief Executive and retired in 2018, leading the Society through a period of significant growth and development. Tony oversaw a substantial increase in the Society's assets and premium income, whilst delivering market-leading returns for members. After retiring, Tony was invited to remain on the Board as a non-executive director. He has worked in the mutual sector for 40 years and has held a number of senior positions in the building society and friendly society sectors. Tony has a broad base of executive management skills and holds professional qualifications in sales and marketing.

### **Adrian Stone**

Non Executive Director

Adrian was born and raised in Matlock joining KPMG in Sheffield direct from university. He became a partner in 1997. He specialised in audit throughout his career firstly in Sheffield, then Leeds before spending the latter part of his career in London. He's worked on companies of all shapes and sizes which reflect the diversity of the Sheffield and Yorkshire economy. He held a variety of leadership roles within KPMG from 2004 including the UK Head of Audit from 2015 to 2017. Since retiring from KPMG in 2018 he has become the Chair of the Sheffield Hospitals Charity which raises funds for the Northern General and Hallamshire hospitals in Sheffield. Adrian is married with three children in their early twenties. He is a keen gardener, a keen golfer and a long-time season ticket holder at Sheffield United.

### **Andrew Thorpe, BSc (Hons)**

Non Executive Director

Andrew joined the Society in 2019 as a non-executive and has been employed by HSBC since 2005, now acting as their Contact Centre Infrastructure Manager EMEA, which involves oversight of data security / integrity within EMEA and supervising the migration of telecommunications service solutions. IT & Data security expertise is increasingly important within any organisation and Andrew was identified by the Board as having the necessary knowledge to advise the Society on these areas.

### **Courtney Marsh**

Non Executive Director

Courtney is a qualified actuary with a rounded knowledge of the financial services and insurance sector. He consulted for Mercer and Oliver Wyman for 12 years with a focus on the mutual space and then joined Health Shield Friendly Society as Chief Risk Officer in 2010. Courtney went on to hold Chief Operating Officer and Commercial Director roles before becoming Chief Executive in 2018. He now runs his own consulting firm, specialising in the health, wellbeing and cash plan arena. Courtney has a love for all sport but a passion for cricket, badminton and triathlons.

# Corporate Governance Report

## Association of Financial Mutuals (AFM) Corporate Governance Code incorporating the Section 172 Companies Act Statement

The Society has applied the AFM Corporate Governance Code for Mutual Insurers (the "Code"), which has replaced the Annotated Corporate Governance Code. The new Code sets out a series of principles of good corporate governance using an 'apply and explain' approach, focussing on culture within an organisation and employee and stakeholder engagement. The Chairman, supported by the Board, ensures that the Code's Principles are appropriately and proportionately applied throughout the year. Set out below is how we believe we achieve the respective Principles:

Principle	How SMFS has applied the Principle
<p><b>Purpose and leadership</b></p> <p>An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.</p>	<p>The Society's purpose, vision statement and core values (outlined on page 14) were reviewed and updated as part of the 2022-2024 strategy review. The Executive Team propose how they expect to drive the business forward to meet the expectations of our members, which is then discussed and agreed by the Board.</p> <p>The 2019-21 strategy was extremely successful; our main objectives, including membership growth, member satisfaction and premium income growth, were all met despite the disruption caused by Covid-19. These objectives evolved into the 2022-24 strategy but will include more consideration around sustainability in our investments and the implementation of a climate change strategy.</p> <p>The ethos of the Society has been refined over a number of years and regularly discussed with employees during team meetings and appraisals. To maintain our culture for the long-term we aim to empower employees by promoting internally where possible, including the appointment of Dawn Webb as Chief Commercial Officer in January 2021 after receiving several promotions during her career at the Society.</p>
<p><b>Board composition</b></p> <p>Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.</p>	<p>Our Chairman, Stephen Hindmarsh, has significant legal experience and is able to draw on this experience to facilitate constructive discussion during meetings. Our SID also has previous Chair experience and is able to assist Stephen where necessary. The Society has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained.</p> <p>The Board consists of 12 members; three executives and nine NED's, with each member bringing a range of expertise, including property management, legal, risk and compliance, sales and marketing and accountancy. All directors have equal voting rights when making decisions, except the Chairman, who has a casting vote.</p> <p>Board members are subject to election every three years at the AGM in accordance with the Society's Rules. The newly formed Nominations Committee has updated and implemented various policies for Board succession planning, diversity and the identification of skill gaps.</p> <p>Internal Board appraisals are carried out annually with written feedback given to each member individually on a confidential basis. The SID also carries out the annual appraisal of the Chairman's performance. The Chair leads an annual evaluation of the Board and its sub-committees.</p> <p>Training requirements are assessed by the Chairman with the assistance of the Chief Executive and Chief Operating Officer throughout the year, to ensure all non-executives complete at least the minimum CPD requirement. Non-executives are asked to attend external seminars and conferences where possible and internal training sessions are held and presented by a number of organisations including compliance consultants and investment managers. A separate online training facility is also available.</p>

Principle	How SMFS has applied the Principle
<p><b>Director responsibilities</b></p> <p>The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.</p>	<p>All directors and non-executive directors complete an annual fit and proper person test to ensure that they are suitable and able to carry out their roles and to provide transparency with regards to any potential conflicts of interest. The Board also reviews the Management Responsibilities Map on a quarterly basis to ensure that all Board members are aware of their responsibilities under the SM&amp;CR and that there are clear lines of accountability.</p>
	<p>The Audit &amp; Risk Sub-Committee enhances independence in communication and oversight particularly around the internal and external audit process. During 2021, the Society also introduced separate Nominations and Remuneration sub-committees to improve independence and Board accountability.</p> <p>Terms of reference are in place for each of the Board's sub-committees and are subject to annual review with any recommended changes submitted for Board approval.</p>
	<p>Our internal auditors, RSM, present to the ARC on a quarterly basis. The internal audits carried out during 2021 demonstrated that we have effective governance arrangements and robust operational resilience procedures in place. The Executive Team provide management responses and timeframes for actions to recommendations made. The external audit also provides strong assurance to the Board and the Society's members that solid processes are in place to confirm the integrity of information provided.</p> <p>The Board receives regular reports (at least monthly) from the Executive Team, Outsourced Chief Investment Officers, property managers etc. on all key areas of the business and its performance.</p>
<p><b>Opportunity and risk</b></p> <p>A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.</p>	<p>Using the Own Risk and Solvency Assessment (ORSA) report and business planning, the Board debates the Society's risk appetite, carrying out scenario testing and identifies how any potential threats can be successfully managed and converted into opportunities.</p>
	<p>The oversight of the Society's risks is carried out by our ARC on at least a quarterly basis, with the Chief Operating Officer monitoring risks throughout the year via the risk register and reverse stress testing. The Society's key risks are outlined on page 21-22.</p>
	<p>The Society has invested and increased its resources in risk management over recent years, with more third-party assessments on cyber security, NED expertise in IT security, and the recruitment of an IT &amp; Cyber Risk Specialist and Risk &amp; Compliance Specialist in 2021.</p> <p>Through monitoring risks and identifying how they can be mitigated we are invariably able to turn them into opportunities and build them into business planning. For example, IT systems are continually improving but can present risks if investment isn't made. The enforced lockdowns and 'work from home' mandates demonstrated that businesses needed to adapt quickly to changing needs, with IT investment essential to ensure that service levels could be maintained.</p>
<p>Throughout the business there are strict controls in place to mitigate risk, as set out mainly within our ORSA, Internal Controls, Board Manual and Compliance Manual, detailing approval limits on transactions, user permissions, etc. These controls are reviewed at least annually and approved by the Board.</p>	

Principle	How SMFS has applied the Principle
<p><b>Remuneration</b></p> <p>A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.</p>	<p>Employees and executive directors are remunerated based on market rates and bonuses are paid based on the Society's performance to encourage a common goal. Directors' bonuses include targets linked to the success of the three yearly strategic review aligning to longer-term success. An internal audit was carried out on the Society's bonus scheme with only minor recommendations made and promptly implemented.</p> <p>Executive bonus schemes are linked to climate impact, social and governance targets to improve executive accountability on these issues.</p> <p>Each employee's job specification is considered in isolation and an appropriate remuneration package designed depending upon the nature and seniority of the position.</p> <p>Board remuneration is detailed on pages 28-29. Further to an independent third-party review and a recommendation from the Remuneration Committee, the Board approved a revised remuneration structure to commence in 2022.</p>
<p><b>Stakeholder relationships and engagement</b></p> <p>Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.</p>	<p>Our team is one of the main reasons our members value being with the Society due to the personal service we provide. Our employees have remained with the Society on average for approximately six years (excluding those starting with us during the year) and we have minimal absenteeism. All employees have pension policies which are pooled in the members with-profits fund and therefore participate in the success of the Society.</p> <p>Stephen Birch acts as the NED Ambassador for member engagement, regularly monitoring feedback from members through the various avenues and discusses this with the Board on a quarterly basis.</p> <p>All 21 employees are based at the Tankersley head office. We aim to hold full team and departmental meetings on a regular basis either in person or via video conference when working remotely. The Executive Team each have responsibility for the various departments within the business and are therefore very close to operations and have direct daily engagement with employees.</p> <p>Payments to our suppliers are always within the requested payment period unless there are outstanding queries.</p> <p>In line with our history, heritage and ethical values, Sheffield Mutual Friendly Society is committed to helping charities and good causes. In 2021 we asked members and the general public to nominate charities to win a Charity Award, with the top three receiving donations of £5k, £1.5k or £1k. Barnsley Independent Alzheimer's and Dementia Support was the employees' chosen charity receiving £2.5k, a charity which provides support to those who have any form of dementia, as well as offering support for their families and friends. Also, each year the Society aims to make funds available for donations to smaller local charities, community groups and voluntary organisations from the Sheffield Mutual Community Fund.</p>

## Chairman's Statement on Corporate Governance

It is my responsibility to ensure that the Society applies the principles of the Code across the business appropriately. The Board aims to apply the spirit of the principles of the Code, and it is the Board's intention to adopt the highest standards of corporate governance for an organisation of our scale and in the best interests of our members.



**Stephen Hindmarsh**  
Chairman  
30 March 2022

# Risk management

The day-to-day operations of running a mutual expose the Society to risk. The Society approaches the limiting of risk exposure in several ways:

- ✎ The Society operates a three lines of defence model for risk management.
- ✎ The oversight and direction of the Board remains central to risk management. The Board has delegated oversight of risk management to the Audit and Risk Committee (ARC). The ARC ensures that appropriate policies, procedures, and processes are implemented across the business to control and monitor both the actual and potential risk exposures which arise from the Society's operations.
- ✎ The ARC ensures risks are aligned to the Society's risk appetite and that any unacceptable risk exposures are identified and either eliminated or where appropriate mitigated.
- ✎ Through the risk register the Society has identified areas of potential risk and considered how they can be either accepted, mitigated, or removed. The risk register also contains trigger

points for each risk at which certain management actions must be implemented. The Chief Operating Officer and Chief Executive along with an ongoing assessment of known risk exposures, monitor external and emerging risks within the risk register. The ARC review the Society's risk register in detail at least quarterly.

- ✎ The Board reviews the Society's risk appetite and principal risks at least annually, covering areas of risk such as solvency, liquidity and operational risk.
- ✎ Risks which could threaten the Society's business model are assessed, managed, and mitigated through a process known as reverse stress testing.
- ✎ The ORSA is also central to the risk management framework.

The Board is presented with the principal risks which are set out below:

Principal risk category	Risk type	Description	Mitigation
Financial	Solvency	This is the risk that the Society cannot meet its long-term commitments.	The Board monitors solvency metrics against the annually reviewed thresholds: SCR minimum of 125% and free assets soft buffer of 3 – 7%.
	Liquidity	This is the risk that the Society cannot meet its short-term debts and payments as they fall due from the cash or near cash holdings.	Liquidity is monitored by the Finance team daily. The Finance and Investments Committee (FIC) receives monthly liquidity reports.
	Market	Market risk includes reductions in equity or property market returns, changes in interest rates and the mismatching of linked assets and liabilities.	The Board through both the ARC and FIC monitors the with-profits fund on at least a monthly basis.
	Credit	Credit risk relates to the risk of loss impacting the Society through for example, investment holdings, commercial mortgages and bank accounts.	The exposures are managed through well-established systems and controls, and third-party controls.
	Insurance	Insurance risks are those that might be considered in relation to for example, mortality, morbidity, persistency, expenses, taxation and new business.	These risks are considered by the actuary and presented to the Board at least annually.

Principal risk category	Risk type	Description	Mitigation
Operational	Strategy	Strategic risk is the risk of the Society entering unprofitable markets or offering unprofitable products.	The Board has a well-established strategic planning process. The three-year strategy is approved by the Board and monitored annually.
	Investments	Investment risk relates to the risk of the Society's investments, e.g. equities, bonds, gilts and property being exposed to market falls. This includes any exposure to currency risk and interest rate risk.	The Board approved Principles and Practices of Financial Management (PPFM) sets out how the Society conducts its with-profits business.  Russell Investments mitigate investment risk, as much as possible, through the diversification of investments managers and asset classes. The Society then smooths investment performance of the with-profits portfolio to reduce sudden increases or decreases in bonus returns.
	Operational	Operational risks include risks such as systems and controls, governance, emerging, regulatory and legal and employees.	The Society has in place policies and internal controls which outline how its operational risks are mitigated. Operational Resilience delivers tolerances for these risks.
	Cyber	Cyber risk is the exposure the Society has to IT and cyber security risks leading to detrimental harm to the Society and members or losses through data breaches or cyber-attacks.	Cyber is an ever-evolving risk and high on the Society's risk agenda. The Society continues to invest in this area through team development and training, IT systems and other tools.
	Conduct	Conduct risks relate to the ability of the Society to conduct its business fairly and properly in relation to its members and employees.	Conduct risks are monitored through the risk register and presented to the ARC on a quarterly basis.
	Member Treatment	The fair treatment of members is at the heart of everything the Society does.	Reports are presented to the Board twice-annually, and individual risks to ARC at least quarterly.

# Directors' Report

## Responsibilities of the Board

As of 1 January 2021, the Committee of Management became 'the Board of Directors', in line with the Society's revised rules upon incorporation.

In 2021 the Board comprised of eight non-executives; Chairman, Senior Independent Director (SID), six other non-executive members; and three executive members (Chief Executive, Chief Operating Officer and Chief Commercial Officer). The Chairman believes that the balance of skills and experience of the members is appropriate to the current requirements of the business.

The Board determines the strategic direction of the Society and reviews its operating and financial position. The Board met on six occasions during 2021 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 Board 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 and there is a clear division of responsibilities between the roles of the Chief Executive and Chairman.

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

- declaration of annual bonus rates
- acquisition/disposal of significant assets
- succession planning
- approval of the annual report and accounts
- approval of the Own Risk and Solvency Assessment (ORSA)

The Chairman is responsible for ensuring that members of the Board receive accurate, timely and clear information in order to discharge their duties effectively and the Society's Secretary is responsible for ensuring good information flows within the Board and between senior management and the Board. The roles of Chief Executive and Secretary should ideally be split but the Board is confident that it receives good information flows, guidance and support, and believes that the cost of employing a separate Secretary would not at this stage be an appropriate use of funds. The Board and sub-committees can also obtain assistance from the Chief Operating Officer, Chief Commercial Officer and other employees if required.

The following statement is made by the Board in relation to the preparation of the annual financial statements, Strategic Report and Corporate Governance Report.

The Board 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 Board is required to:

- select appropriate accounting policies and apply them consistently
- make 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 Board 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 regulators under the Financial Services and Markets Act 2000

The Board also has general responsibility for safeguarding the assets of the Society and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board confirms that it has complied with the above requirements and considers that the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for members to assess the Society's position and performance, business model and strategy.

## Attendance at meetings

Board meeting and sub-committee meeting attendance during the year is set out below. The number of meetings that each director could have attended is shown in brackets.

	Board	FIC	ARC	NC	RC	WPAA
<b>J Barber</b>	6 (6)	11 (11)	-	4 (4)	1 (1)	3 (3)
<b>J Bellamy</b>	6 (6)	11 (11)	4 (4)	4 (4)	1 (1)	3 (3)
<b>S Birch</b>	6 (6)	4 (5)	3 (4)	-	-	-
<b>A Burdin</b>	6 (6)	4 (4)	4 (4)	-	1 (1)	-
<b>P Galloway</b>	6 (6)	11 (11)	4 (4)	-	-	-
<b>S Hindmarsh</b>	6 (6)	11 (11)	-	4 (4)	1 (1)	-
<b>S Plant-Hately</b>	6 (6)	4 (4)	4 (4)	-	-	-
<b>N Spawforth</b>	6 (6)	11 (11)	-	-	-	3 (3)
<b>A Stone</b>	6 (6)	5 (5)	4 (4)	3 (4)	-	-
<b>A Thorpe</b>	6 (6)	5 (5)	4 (4)	4 (4)	1 (1)	-
<b>D Webb</b>	6 (6)	2 (3)	-	-	-	-

## Finance & Investments Sub-Committee (FIC)

The Society has a FIC which meets on at least 11 occasions during the year and consists of the FIC Chairman, the Society's Chairman, SID and one other Non-Executive Board member by rotation, plus the Chief Executive and Chief Operating Officer. The sub-committee's main responsibilities are:

- 📌 to review monthly income & expenditure and budget performance
- 📌 to review the Balance Sheet on a quarterly basis
- 📌 to consider and review recommendations from and performance of the Society's investment managers and agree sales, purchases and investment mandates as necessary
- 📌 to monitor the Society's property portfolio and agree sales and purchases within delegated limits

## Audit & Risk Sub-Committee (ARC)

This sub-committee monitors and acts as the risk management function and provides oversight of the Society's financial reporting process and internal controls. It comprises at least four non-executive members and meets on at least four occasions during the year. Executives attend by invitation only. The sub-committee is not chaired by the Society's Chairman and the position of sub-committee Chairman is held by a non-executive having an accountancy qualification. The sub-committee's main responsibilities are:

- 📌 to review the external auditor's qualifications, independence and performance
- 📌 to review the integrity of the Society's financial statements
- 📌 to monitor the performance of the Society's outsourced internal audit function
- 📌 to review the Society's internal accounting and financial controls
- 📌 to review the selection and formal tendering process for internal auditor and external auditor, as required
- 📌 to manage the Society's risk position



## Nominations Sub-Committee (NC)

The NC advises the Board on the appointment of new members and the tenure of existing members as well as the perceived skills balance required on the Board, whilst promoting equality and diversity throughout the Society. It comprises at least three non-executive members and meets on at least two occasions during the year. Executives attend by invitation only. The sub-committee is chaired by the SID. The sub-committee's main responsibilities are:

- Review the structure, size and composition of the Board; to include skills, knowledge, experience, length of tenure, and diversity.
- Be responsible for identifying and nominating, for the approval of the Board, suitable candidates to fill Board vacancies as and when they arise or are expected to arise on retirements.
- Make recommendations to the Board in relation to drafting the Society's Board recruitment policy - covering matters such as recruitment, advertising, composition, tenure, diversity, equality and succession.

## Remuneration Sub-Committee (RC)

The RC advises the Board on levels of remuneration. It comprises at least three non-executive members and meets on at least one occasion during the year. Executives attend by invitation only. The sub-committee is chaired by the Society Chairman. The sub-committee's main responsibilities are:

- Review Executive remuneration and incentive schemes
- Review NED remuneration
- Review global awards for pay increases to employees

## 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 Executive Team is proactive in monitoring the efficiency of internal controls and the Board reviews the effectiveness of its internal control systems throughout the year by receiving reports from an external compliance consultant and our internal auditors, RSM. The internal auditors carry out an independent risk-based audit in accordance with industry standards and guidance, including days on site, and work to a Board approved programme designed to evaluate and improve the effectiveness of risk management, controls and governance processes. Their reports are considered by the Board and action taken where appropriate.

## External audit

Royce Peeling Green Limited (RPG) was appointed by the Board as external auditors on 30 July 21, following recommendation by the ARC. They will be offering themselves for formal election at the 2022 AGM. RPG provides no non-audit services.

The effectiveness of the external audit process is assessed by the Board based on a comprehensive audit strategy and methodology, which was reviewed and approved by the Board prior to the audit commencing. The auditors liaised with the Chair of the ARC during the audit planning and completion stages. The Board receives a report and presentation of the audit findings at its conclusion. The appointment and re-appointment of the external auditors is subject to a resolution at the Society's AGM.

## With-profits governance

The Society's With-Profits Advisory Arrangement ("WPAA") is made up of the Society's SID and the FIC supported by the With-Profits Actuary and its role is to act in an advisory capacity to inform the decision making of the Board in relation to the with-profits fund. In particular, the role of the WPAA is to consider the interests of with-profits policyholders, ensuring they are treated fairly and that the fund is managed in accordance with the Society's Principles and Practices of Financial Management ("PPFM"). The WPAA also oversees the Society's governance arrangements for closed-book business. A copy of the terms of reference of the WPAA and the PPFM can be obtained from the Society's website [www.sheffieldmutual.com](http://www.sheffieldmutual.com).

## Report of the Board to with-profits policyholders

The Board is required to produce a report to all with-profits policyholders explaining how it has managed its with-profits business, complied with the PPFM and how the Board has exercised discretion in its decisions. This report will be available from the Society's website before 30 June 2022.

## Going concern

The Board is satisfied that the Society has adequate resources to continue in business for the foreseeable future. The Board considers it appropriate, therefore, to prepare the financial statements on a going concern basis.

## Operating powers

It is the opinion of the Board 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 by the Prudential Regulation Authority for its relevant classes of business at 31 December 2021.

## Complaints by members

The Society has a documented complaints procedure and aims to treat its members fairly. There were five reportable complaints in 2021.

## Disclosure of information to the auditor

The Strategic Report and Governance Report are approved by order of the Directors.

It is the responsibility of the Board of Directors to ensure that applicable accounting standards have been followed and that the accounts are prepared in an accurate and timely manner.

The Board members who held office at the date of the approval of the Report and Accounts confirm that, as far as each of them is aware, there is no information relevant to the audit of the Society's financial statements for the year ended 31 December 2021 of which the auditors are unaware;

And,

They have taken all steps they should have taken as Board members to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.



**Jamie Bellamy**  
Chief Executive  
30 March 2022

# Board Evaluation Report

The Chairman carried out a formal review of each Board member by obtaining and co-ordinating responses to individual questionnaires which were circulated to all members. The results were then discussed individually, with future action points and training requirements noted, as appropriate. In addition, each member was consulted to assess the performance of the Board as a whole and the sub-committees. The SID co-ordinates the responses to a questionnaire relating to the performance of the Chairman in carrying out his duties and the results are discussed without the Chairman being present. The performance of the Executive Team is reviewed by the Board.

The Board has continued to develop its knowledge by receiving specialist presentations from the Actuary, Internal Auditors, Investment Managers, solicitors, property specialists and through attending various industry seminars. The Chairman has met with other non-executive Board members without the Chief Executive being present.

The newly formed Nominations Sub-Committee has made improvements to various governance policies, including the succession plan, which has identified potential replacement dates and a non-executive director skills matrix which identifies any skills gaps the Board may consider for future recruitment. Subject also to the Society's rules, new appointments to the Board are being made on the basis of three-year terms. Where Board 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. The Society has a formal diversity policy for Board appointments. The Society sees diversity at Board level as an important consideration in maintaining a balanced and cohesive governing body. The Society will seek to utilise different skills, industry experience, background, race, gender, sexual orientation and other qualities of Board members. These factors will be considered in deciding the best composition of the Board and, when possible, should be balanced appropriately. All Board appointments will be made on merit based on the skills and experience required to best meet the role specification and make an effective contribution.

Courtney Marsh was co-opted onto the Board on 18 March 2022. Courtney is a qualified actuary and has significant experience of working within the financial services and insurance sector. He will be offering himself for election at the AGM and the Chairman recommends that he should be elected to the Board.

There are six Board members offering themselves for re-election at the AGM. The Chairman and SID confirm that, following formal performance evaluations and the completion of a skills matrix, the individuals remain effective and that they continue to demonstrate commitment and due skill to the role and therefore recommend that they should be re-elected.

***“The Society will seek to utilise different skills, industry experience, background, race, gender, sexual orientation and other qualities of Board members.”***

# Board Remuneration Report

Board remuneration is reviewed in accordance with the Society's remuneration policy. The overriding principle of the policy is to ensure that remuneration is aligned to the long-term objectives of the Society and that there are no arrangements that would adversely affect the financial position of the Society or its risk profile. The Board is sensitive to pay and employment conditions elsewhere, although does not fully assess remuneration levels relative to other organisations, preferring instead to act with an element of independence. It may use remuneration data provided by the AFM or any other such organisation, as a comparable measure, to ensure salaries and fees remain attractive.

During 2021 the non-executive Board members were remunerated with a flat fee of £10,000 p.a., with additional payments of £3,000 p.a. to the Chairman, £1,000 p.a. to the Chairman of a sub-committee and £1,000 per each Senior Management function held by a non-executive. In 2021 the Remuneration Committee appointed an independent consultant (Reward Risk Ltd) to review non-executive fee levels. The review was considered by the Nominations Committee and modified to update Board remuneration for 2022. The flat fee will remain at £10,000 p.a., with additional payments of £4,500 to the Chairman, £5,200 to the Chairman of the ARC, £3,300 to the Chairman of a sub-committee and £1,900 p.a. to members of a sub-committee. The fees are neither pensionable nor performance related.

The Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Commercial Officer (CCO) are employed on salaried contracts, which require six months notice for the CEO or three months notice for the COO and CCO. Their salary packages are reviewed annually by the Board without them being present. As with Non-Executives, the Remuneration Committee requested that the independent consultant also review Executive salaries. The Executive Team are members of the Society's Group Personal Pension Scheme and are eligible for a discretionary performance related annual bonus payment of up to £10,000 for the Chief Executive, up to £6,000 for the Chief Operating Officer and up to £5,000 for the Chief Commercial Officer, which may be paid as pension contributions. As part of the 2019-21 Strategic Review, an additional element was included within the Executive Team bonus scheme relating to longer term business targets. If certain objectives are attained throughout the three-year period 2019-21, up to £2,000 per annum will be awarded to the CEO and £1,000 per annum to the COO, paid in 2022. None of the Executive Team served as remunerated non-executive directors elsewhere during the year.

The Board believes that the current remuneration structure, introduced following an independent third-party review, provides appropriate levels of remuneration sufficient to reflect the workloads and responsibilities of non-executives, whilst also ensuring we can recruit, retain and motivate executives with the required skills, experience and qualities to continue to run the Society successfully for the benefit of its members.

## Board Members' emoluments

	Salary/fees & expenses	Taxable benefits	Pension contributions	2021 total	2020 total
	£	£	£	£	£
<b>Chairman</b>					
S Hindmarsh	15,013	-	-	15,013	10,462
<b>Board</b>					
J Barber	13,726	-	-	13,726	10,198
S Birch	10,405	-	-	10,405	7,674
A Burdin	10,253	-	-	10,253	7,678
S Plant-Hately	13,079	-	-	13,079	9,912
N Spawforth	12,104	-	-	12,104	10,201
A Stone (Joined Sep 20)	10,036	-	-	10,036	2,568
A Thorpe	10,051	-	-	10,051	7,588
<b>Chief Executive</b>					
J Bellamy	117,775	376	10,350	128,501	120,421
<b>Chief Operating Officer</b>					
P Galloway	87,820	376	4,800	92,996	87,326
<b>Chief Commercial Officer</b>					
D Webb (CCO from 1 Jan 21)	55,700	376	3,150	59,226	-

# Independent Auditors' Report to the Members of Sheffield Mutual Friendly Society Limited

## Opinion on the financial statements of Sheffield Mutual Friendly Society Limited

We have audited the financial statements of Sheffield Mutual Friendly Society Limited ('the Society') for the year ended 31 December 2021, which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard FRS 102 and 103.

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2021 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

- Reviewing budget financial information for the financial year ending 31 December 2022, and up to date post year end management accounts
- Reviewing the Society's business plan 2022 including medium term forecast to 2025
- Reviewing the Society's Own Risk and Solvency Assessment and Forward-Looking Assessment of Own Risk reports
- Reviewing Board and sub-committee minutes
- Discussions with our Reviewing Actuary on the appropriateness of assumptions and potential sensitivities in the Technical Provisions and Solvency Capital Requirement calculations
- Discussions with management and the Board on such matters and post balance sheet events which may impact the going concern status

From the work undertaken, we noted that the Society's solvency position was in excess of 165% as of 31 December 2021 and well above the risk thresholds management has set to initiate a responsive action. The Society is also projected to remain solvent in the medium-term forecast period to 2025 taking into account several potential downside scenarios. However, like many other societies, the Society's solvency position is sensitive to movements in the risk-free rates and changes in the investment market which are largely outside their control.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

## Our approach to the audit

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed external actuarial experts ('Reviewing Actuary').

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Board made subjective judgements, for example, in respect of the valuation of the technical provisions which are subject to management judgement and estimation. We also updated our risk assessment for the impact of Covid-19 and focussed our audit effort over the appropriateness of going concern and post balance sheet event disclosures.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatement on our audit and the financial statements. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined an overall level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined planning materiality for the Society to be £392,000 which is approximately 2% of the prior year Fund for Future Appropriations.

On the basis of our risk assessment, together with our assessment of the Society's overall control environment, our judgement is that the overall performance materiality level should be 75% of planning materiality, namely £294,000. We agreed with the Board that we shall report to them misstatements in excess of £15,000 that we identify through the course of the audit, together with any qualitative matters that warrant reporting.

At the conclusion of the audit, we re-assess the materiality levels based on the audited financial statements and then compare this with the planning materiality. The result of this assessment showed there was no significant change to final materiality and we are satisfied with the levels set at the planning stage.

# Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of technical provisions</b></p> <p>As at 31 December 2021, the Society recognised long-term business provisions (the 'Technical Provisions') of £136.8m (2020: £123.9m) that were prepared in line with the Society's accounting policy. Due to the size and nature of the Technical Provision, we consider these to be material to the financial statements.</p> <p>The technical provision is calculated using policy data held on the Society's administration system and assumptions set using internal and external data as inputs to the actuarial valuation model.</p> <p>Through the selection of appropriate assumptions, the Board is required to make significant judgements in conjunction with the advice of the Chief Actuary. These judgements involve considering whether the assumptions appropriately reflect the Society's experience, circumstances and future expectations.</p>	<p>In assessing the valuation of the Technical Provisions, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We engaged the services of a suitably qualified, independent and experienced actuary to review and report on the methodology and assumptions applied by the Board in the calculation of the Technical Provision, and on the accuracy of the calculation itself.</li> <li>• We reviewed the reasonableness of the assumptions used in the calculation and considered the advice of our Reviewing Actuary as to whether those assumptions were reasonable and the impact they had on the calculation.</li> <li>• We tested the integrity of the Society's policy administration data to ensure the data being used by the Chief Actuary was accurate. The testing included sample checks on premium income streams, claims paid, data integrity checks on key fields and reconciliation of policy numbers.</li> <li>• One key component to the Technical Provision are the expense assumptions. We challenged the Board's assumptions in terms of future budgeted expenses and levels of projected new business and compared previous budgets to actual results to assess the reliability of the Society's budgeting process. We also reviewed post year end management information.</li> </ul>
<p><b>Our conclusion</b></p> <p>Overall, based on the assumptions and methodology used at 31 December 2021, we consider the assumptions and methodology used in calculating the Technical Provision recognised within the financial statements to be appropriate and reasonable.</p>	



Key audit matter	How our audit addressed the key audit matter
<p><b>Management override of controls</b></p> <p>Auditing Standards require us to communicate the fraud risk from management override of controls as significant.</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>In assessing the risk that accounting records and the financial statements are materially misstated through management overriding controls, we have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Tested journals and other transactions and evaluated whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud</li> <li>• Reviewed bank transactions throughout the year and since the year end for material and round sum amounts and evidenced these back to appropriate documentation and authorisation</li> <li>• Reviewed the completeness and reasonableness of accounting estimates (in conjunction with work performed on the Technical Provision noted earlier)</li> <li>• Checked the consistency and appropriateness of accounting policies and disclosures in the financial statements</li> </ul>
<p><b>Our conclusion</b></p> <p>Overall, we are satisfied that the accounting records and financial statements are free from material misstatement in this respect.</p>	

## Other information

The Board is responsible for the other information. The other information comprises the information included in the Strategic Report and Directors' Report (together the "Annual Report"), other than the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** - the statement given by the Board that it considers the annual report and financial statements taken as a whole to be fair, balanced and understandable and provide the information necessary for members to assess the Society's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** - the section describing the work of the audit and risk committee does not appropriately address matters communicated by us to that committee.

We have nothing to report in respect of these matters.

## Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents that we require for our audit

## Responsibilities of the Board

As explained more fully in the Board's responsibilities statement, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the society or to cease operations, or has no realistic alternative but to do so.

## Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

At the planning stage of the audit, we gain an understanding of the laws and regulations which apply to the Society and how management seek to comply with them. This helps us to make appropriate risk assessments. We focused on laws and regulations that could give rise to a material misstatement in the Society's financial statements, including but not limited to, the Friendly Societies Act 1992, Financial Services and Market Act 2000, the Prudential Regulation Authority's regulations, the Financial Conduct Authority's regulations, the Solvency II regulations and the UK tax legislation.

Our audit focused on relevant risk areas and we reviewed compliance with laws and regulations through making relevant enquiries and corroboration by, for example, review of Board and Sub-committee Minutes, review of correspondence with and reports to the regulators, enquiries of management, review of reports by internal auditors and compliance consultants and review of the Society's Complaints and Dissatisfaction Register.

We assess the risk of material misstatement in the financial statements including as a result of fraud and undertake procedures including:

- Review of controls set in place by management
- Enquiry of management as to whether they consider fraud or other irregularities may have occurred or where such opportunity might exist
- Challenge of management assumptions with regard to accounting estimates
- Identification and testing of journal entries, particularly those which may appear to be unusual by size or nature

There are inherent limitations of an audit, hence there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements, or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we are less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This forms part of our auditors' report.

## Other matters which we are required to address

- Auditor tenure** - We were appointed by the Board on 30 July 2021
- Non – audit services** - The non- audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the Society in conducting our audit
- Consistency of the audit report with the additional report to the audit and risk committee** - Our audit opinion is consistent with the additional report to the audit and risk committee we are required to provide in accordance with ISAs (UK)

## Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an 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.

*Royce Peeling Green Limited*

**Martin Chatten (Senior Statutory Auditor)  
For and on behalf of Royce Peeling Green Limited  
Chartered Accountants  
Statutory Auditor**

Date: 30 March 2022

The Copper Room  
Deva City Office Park  
Trinity Way  
Manchester M3 7BG

# Income and Expenditure Account

	Note	2021	2020
		£	£
<b>Technical account - long-term business</b>			
<b>Income</b>			
Earned premiums	5	21,655,533	17,771,516
Investment and other income	6	8,770,409	4,827,789
Unrealised investment gains	7	7,486,351	4,609,123
<b>Total income</b>		<b>37,912,293</b>	<b>27,208,428</b>
<b>Expenditure</b>			
Claims incurred	8	(10,242,203)	(9,054,397)
Net operating expenses			
Acquisition expenses	9	(918,449)	(710,735)
Administrative expenses	9	(950,379)	(754,429)
Investment expenses and charges			
Investment management expenses	10	(307,677)	(256,143)
Taxation attributable to long-term business	11	(191,945)	(347,723)
Unrealised losses on investments	14	(1,875,913)	(6,893,385)
Realised losses on investments	15	-	(2,020,405)
Change in long-term business provision	19	(18,845,759)	(8,285,055)
Transfer from / (to) fund for future appropriations	20	(4,579,968)	1,113,844
<b>Balance on the Technical Account</b>		<b>-</b>	<b>-</b>

All income and expenditure relates to continuing operations.

The above results relate wholly to continuing activities. The Society had no other recognised gains or losses other than those included above in the Technical Account and the movements in the Child Trust Fund Stakeholder Fund as shown in note 19(b).

The Society is a mutual organisation and therefore has not presented a Statement of Changes in Equity.

# Balance Sheet

	Note	2021	2020
		£	£
<b>Assets</b>			
<b>Investments</b>			
Land, buildings and commercial mortgages	16	<b>48,084,973</b>	42,366,209
Other financial investments	16	<b>102,029,536</b>	89,160,826
		<u>150,114,509</u>	<u>131,527,035</u>
<b>Assets held to cover linked liabilities</b>	16	<b>49,873,222</b>	42,332,476
<b>Other assets</b>			
Fixed assets	17	<b>510,035</b>	515,558
Cash at bank and in hand		<b>4,865,595</b>	7,754,808
<b>Prepayments and accrued income</b>			
Accrued interest and rent		<b>323,706</b>	254,119
Other prepayments and accrued income		<b>655,339</b>	652,216
		<u>206,342,406</u>	<u>183,036,212</u>
<b>Total assets</b>		<b>206,342,406</b>	183,036,212
<b>Liabilities</b>			
<b>Technical provisions</b>			
Long-term business provision	19	<b>(136,808,250)</b>	(123,909,780)
<b>Technical provision for linked liabilities</b>	19	<b>(43,349,476)</b>	(37,419,825)
<b>Fund for future appropriations</b>	20	<b>(24,174,806)</b>	(19,594,838)
<b>Creditors</b>			
Other creditors including taxation and social security		<b>(99,955)</b>	(356,244)
<b>Accruals and deferred income</b>	21	<b>(1,909,919)</b>	(1,755,525)
		<u>(206,342,406)</u>	<u>(183,036,212)</u>
<b>Total liabilities</b>		<b>(206,342,406)</b>	(183,036,212)

The financial statements were approved by the Board on 30 March 2022

**S Hindmarsh**  
Chairman

**J Bellamy**  
Chief Executive

**P Galloway**  
Chief Operating Officer

**D Webb**  
Chief Commercial Officer

# Notes to the financial statements

## 1. Accounting policies

### (a) Basis of accounting

The financial statements have been prepared in accordance with the Friendly Societies Act 1992, the Friendly Societies (Accounts and Related Provisions) Regulations 1994, and in accordance with Financial Reporting Standards 102 & 103 (FRS 102 & 103) issued by the Financial Reporting Council.

In accordance with FRS 103, the Society has applied existing accounting policies for insurance contracts.

The Board of Directors has a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Board continues to apply the going concern basis of accounting in preparing the Annual Report and Financial Statements.

### (b) Earned premiums

Earned premiums 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

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.

Rentals receivable under operating leases, including any lease incentives provided, are recognised in the Income and Expenditure account on a straight-line basis over the term of the relevant lease.

### (e) Investments

The Society classifies all of its financial assets as financial assets at fair value through the Income and Expenditure Account.

The Society classifies all of its investments upon initial recognition as financial assets at fair value and subsequent valuation movements are recognised in the Income and Expenditure Account.

Assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Society has transferred substantially all risks and rewards of ownership. Financial assets at fair value through income include listed investments, and units in collective investment vehicles. Fair value is based on the bid value at the year end.

All investment properties are formally revalued every five years and interim desk-top valuations are performed in the intervening years. Included within investment properties are eight leasehold properties where the lease is greater than 50 years.

Bank deposits represent variable rate deposits with interest paid annually.

Money market deposits represent fixed rate deposits with a maturity of one to three months.

Mortgages are included at cost, and interest charged at a commercial rate over a fixed period of time, and security held over the underlying asset.

The Society has not held any derivative financial instruments at any point during the reporting period.

### (f) Fixed assets and depreciation

All assets excluding freehold property 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:

#### Office furniture and equipment

15% per annum straight line

#### Motor vehicles

25% per annum reducing balance

#### Computer equipment

33.33% per annum straight line

#### Website development

33.33% per annum straight line

#### Software development

20% per annum straight line

The Society's freehold property is included at fair value and it is not depreciated on the grounds of immateriality. It is revalued each year using the same approach as the Society's investment properties detailed in note 1(e). Any change in fair value is reflected in the Income and Expenditure Account.

### (g) Impairment of assets

Assets other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the Income and Expenditure Account.

### (h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### **(i) Taxation**

Taxation is provided at current rates in respect of the taxable element of the Society's business. As a friendly society the Society is subject to tax on only part of its life and endowment business, on realised gains on the disposal of its investments and in respect of the increase / decrease in the value of its listed fixed interest securities.

### **(j) 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 12. None were outstanding at the year end.

### **(k) Cash flow statement**

The Society, being a mutual life assurance company, is exempt from the requirements under FRS 102 Section 7.1A (3.17[d]) to produce a cash flow statement.

### **(l) 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 Board to participating policyholders by way of bonuses. Any unallocated surplus is carried forward in the fund for future appropriations.

### **(m) Long-term business provisions**

The provisions are determined by the Society's Actuarial Function Holder and With-Profits Actuary following her annual investigation of the Society's long-term business and linked liabilities. They are evaluated on a Solvency II basis.

### **(n) Deferred acquisition costs**

In accordance with section 3.7 FRS 103, deferred acquisition costs are not separately accounted for as the Society applies the Prudential Regulatory Authority (PRA) realistic capital regime.

### **(o) Functional currency**

The functional currency of the Society continues to be pounds sterling because that is the currency of the primary economic environment in which the Society operates.

### **(p) Foreign exchange policy**

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

## **2. Critical accounting estimates and judgements**

In the application of the Society's accounting policies, the Board is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the opinion of the Board, there are two key estimates and assumptions which carry a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are discussed in more detail below.

### **(a) Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below.

#### **(i) Valuation of long-term insurance contract liabilities:**

The liability relating to long-term insurance contracts, included within the technical provisions, is based on assumptions reflecting the best estimate at the time allowing for a margin of risk. The assumptions used for mortality, morbidity and longevity are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for investment returns, expenses, lapse and surrender rates are based on current market yields, product characteristics and relevant claims experience. The assumptions used for discount rates are based on current market risk rates. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

## (ii) Valuation of financial instruments:

The Board uses its judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. However, where observable quoted prices are not available, the Society adopts the fair value hierarchy set out in FRS 102 section 11. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are as follows:

- 📌 **Level 1** – Quoted prices for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- 📌 **Level 2** – When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If it can be demonstrated that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.
- 📌 **Level 3** – If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

## 3. Capital statement

The Society's capital management plan extends to the Society having appropriate procedures in place to identify correctly the components of its own fund items which is done by the Society's Actuarial Function. Additionally, the Society reviews, as part of its regular ORSA process, the current and likely future capital position of the business and whether there is a material risk that its solvency may be threatened. In the event that the Society's projected solvency position is at risk, defined as not having sufficient capital resources to cover the Solvency Capital Requirement, then the Society will draw up appropriate plans to rectify that position. These plans will be appropriate to the Society's circumstances at the time but might include:

- 📌 Taking such management actions as may be anticipated within its SCR calculations
- 📌 Reviewing and refocusing its strategic objectives and priorities
- 📌 Re-pricing its contracts of insurance
- 📌 Reviewing its expense base, including potentially closing to new business
- 📌 Seeking a transfer of engagement

The Society is required to comply with Financial Reporting Standards 102 and 103. 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. A valuation was carried out at 31 December 2021 in conformity with the requirements of Solvency II.

The Society was in compliance with capital requirements imposed by regulators throughout the financial year.

The capital requirement of the Society is determined by its exposure to risk and solvency criteria established by management and statutory regulations. The table below sets out the capital resources requirement and the Society's available capital.

	2021	2020
	£000	£000
Solvency capital requirement	<b>14,426</b>	11,874
Available capital resources	<b>24,175</b>	19,595
Less assets inadmissible for Solvency II	<b>(348)</b>	(437)
Total available capital resources	<b>23,827</b>	19,158
Solvency cover	<b>165%</b>	161%



The table below sets out the capital that is managed by the Society on an FRS and regulatory basis:

	2021	2020
	£000	£000
Opening fund for future appropriation	19,595	20,709
Transfer to fund for future appropriation from Income and Expenditure account	4,580	(1,114)
Closing fund for future appropriation	<u>24,175</u>	<u>19,595</u>

Set out below are the details of how the available capital resources have been calculated, the restrictions in place over the available capital resources, the basis for calculating the regulatory capital requirements and an explanation of the change in available capital.

#### (a) Basis of calculation of available capital resources







The available capital of the Long-Term Insurance Fund has been determined in accordance with the Solvency II requirements and includes the fund for future appropriation. The fund for future appropriation represents surplus funds of the Society which have not been allocated to members and is available to meet regulatory and solvency requirements of the Society. Adjustments have been made to restate the assets and liabilities in line with Solvency II.

As shown on page 40, the capital resources requirement amounts to £14.426m and is determined in accordance with capital requirements as defined by Solvency II. As at 31 December 2021 the Society's capital resources were 165% of its capital requirements.

Approximately 32% of the fund excluding the Child Trust Fund business is held in property and approximately 27% is held in equities. These are sensitive to market movements in general. About 29% is held in bonds and gilts and changing market conditions can affect bond values and future returns. Each bond also has its own individual credit risk. About 2% is held in the form of commercial mortgages. The remaining assets are invested in cash and deposits which are subject to default risk.

The valuation interest rate is set in reference to risk-free rates specified by the European Insurance and Occupational Pensions Authority ("EIOPA") as of 31 December 2021.

The main assumptions used in the statutory valuation carried out as of 31 December 2021 are set out below.

-  **Valuation interest rate**  
Solvency II risk free yield curve
-  **Mortality**  
All applicable tables: 30% of ELT15 Males
-  **Expenses**  
The allowance in the premium rates plus a specific reserve based on expected per policy costs and inflated in line with RPI-0.25%
-  **Lapses**  
Realistic rates based on the actual experience for each product
-  **Bonuses**  
A continuation of the currently declared interim rates
-  **Tax**  
10% on interest and expenses for relevant taxable business

## (b) Available capital sensitivity analysis

The table below gives the change in the available capital in different scenarios.

Variable	Change in variable	Change in available capital £'000s
Expense allowances	10%	-803
Expense allowances	-10%	803
Change in rate of mortality (%ELT)	10%	-164
Change in rate of mortality (%ELT)	-10%	174
Change in fixed interest yields	EIOPA shock up	1,359
Change in fixed interest yields	EIOPA shock down	-531
Fall in fixed interest asset value	-10%	-1,720
Fall in equity values	-10%	-2,184
Fall in property values	-10%	-1,994

The EIOPA interest rate down shock to fixed interest yields and the fall in asset values reduce the available capital considerably. The biggest reduction comes from a 10% fall in equity values. The Society has 31.6% of its assets excluding CTF in equities and a 10% fall in values leads to a reduction in available capital of £2.184m.

A change in mortality rates does not have any material effect on the available capital. This is because 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 EIOPA shock to increase the yields and 10% reduction in expenses increase the available capital.

## (c) Analysis of change in capital resources

	2021	2020
	£000	£000
Total available capital resources at 1 January	19,595	20,709
Premiums less claims and expenses	9,544	7,252
Investment income less tax	8,222	2,203
Unrealised gains / (losses) on investments	5,659	(2,284)
Change in long-term business provision	(18,845)	(8,285)
Total available capital resources at 31 December	<u>24,175</u>	<u>19,595</u>

#### (d) Technical provision reconciliation

	2021	2020
	£000	£000
Technical provision at 1 January	123,910	110,990
Methodology change	-	(1,338)
Impact of data movements in reserves	(5,677)	(3,065)
Change in discount rates	(572)	400
Change in expenses and inflation	(171)	516
Change in lapse assumption	441	(62)
Change in mortality assumption	-	110
Change in investment returns	2,055	3,850
Change in bonus rates	-	(1,035)
New business and risk margin	16,822	13,544
Total available capital resources at 31 December	<u>136,808</u>	<u>123,910</u>

## 4. Risk management

This section summarises the principal risks that the Society is exposed to and the way the Society manages them.

### (a) Insurance risk

Insurance risk is the risk of loss due to uncertainties over timing, amounts and occurrence of events insured by the Society. Insurance related risks include mortality risk, persistency risk, taxation, new business and renewal expense risk - with persistency risk being the main item. The Society has no exposure to longevity risk, nor does it have any reinsurance arrangements.

The Board has adopted a low tolerance to insurance risk by taking a low-risk view on product development and applying high standards of life underwriting.

The Society manages insurance risk by:

- a structured approach to product development and pricing, including provision for expenses;
- a formal actuarial analysis of the performance of the insurance portfolio which feeds into the development of products and the calculation of technical provisions;
- robust management and challenge of expenses;
- proactive management of new business flows; and
- monitoring persistency rates, which are reported to the Board at least bi-annually.

	2021	2020
	£000	£000
Sickness and death	975	1,103
Pure endowments	15,315	16,208
Endowments	813	865
Taxable saving plans	6,870	7,123
Investment bond	36,496	31,301
ISA	76,869	67,598
Pension bond	260	509
Other	848	853
Total	<u>138,446</u>	<u>125,560</u>

### Concentration of insurance risk

All long-term business is conducted in the UK therefore, a geographical segmental analysis is not applicable.

The concentration of long-term business provisions by the type of contract is set out in the table above. This analysis excludes unit linked liabilities and includes an apportionment of the expense reserve.

### (b) Financial risk management

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, and insurance liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk. However, the Society also faces financial risks in respect of property valuations, concentration of investments and counter-party exposures.

Each of the exposures to risk are analysed regularly to assess their likely impact and probability. The overall level of risk is then compiled into a detailed report taking into account the correlation of individual risks to arrive at a required level of capital. The Board is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

### i. Market risk

Market risk is the risk of losses arising from changes in the value of assets or in the income from the assets. The Society manages market risk so that the returns generated are in line with members' expectations and support the Society's future strategic and operational objectives.

For assets backing member liabilities, market risk is managed by matching, within broad parameters, the duration and profile of the assets with the underlying liabilities.

The Society's Finance & Investments Committee oversees the investment policy and strategy and ensures that the asset mix aligns to the Society's Principles and Practices of Financial Management (PPFM).

In order to mitigate market risk, the Board has taken the decision to appoint Russell Investments as the Society's Outsourced Chief Investment Officer. Russell Investments will oversee the Society's investment asset allocation taking account of capital requirements, investment return required and market volatility. They will look to choose the most appropriate investment managers on our behalf, at a significantly reduced cost compared with the Society directly approaching the manager, which also reduces reliance on one investment managers expertise and can offer diversification in additional asset classes.

Region	%	£
UK	57.8%	25,120,976
Global equities	17.0%	7,419,042
Cash-benchmarked strategies	9.0%	3,898,956
US	7.5%	3,251,573
Emerging equity	3.7%	1,613,108
Pan Europe ex UK	3.5%	1,522,200
Japan	1.5%	640,388
Total		<u>43,466,243</u>

### Concentration of market risk

The table above provides details of the Society's equities (including alternative assets) by region.

#### ii. Equity price risk

Holdings in equities are by their nature subject to market movement. In order to mitigate this risk the Society employs an external investment portfolio manager. Equity purchases focus on defensive rather than cyclical stocks, focussing on companies with sound balance sheets, global reach and strong dividend earnings / potential.

#### iii. Interest rate risk

The Society is exposed to interest rate risk where changes in interest rates result in changes to market values or cash flows and where this is not matched by the change in the value of liabilities. This risk can be greater if the term of fixed interest investments is not well matched to the term of the liabilities. Members of the Society bear most of the market risk through the annual bonuses allocated to them.

#### iv. Exchange rate risk

The Society holds a number of overseas equities which present a small exchange rate risk. Given the perceived low risk of these investments on the overall portfolio, and the Society's long-term investment objectives, the Society does not hedge against the exchange rate risk.

#### v. Credit risk

Credit risk is the risk of loss due to failure by another party to perform in meeting its financial obligations. The Society adopts a medium tolerance to credit risk in support of the Society's strategic objectives and in matching policyholder liabilities. This means that modest losses would be tolerated in order to secure higher potential returns. The Society seeks to minimise other forms of credit risk, in particular those related to deposit takers. The Society has taken the following steps to mitigate credit risk:

- 🌱 bond holdings adhere to minimum credit rating criteria i.e. must be mainly 'A' rated and above;
- 🌱 defined commercial lending policy with strict underwriting guidelines;
- 🌱 counterparty limits are in place for cash deposits;

### Concentration of credit risk

The following table provides details of the Society's bonds by region.

	Total	
	£	
UK fixed interest	32,977,778	81.40%
Overseas fixed interest	7,536,303	18.60%
Total	<u>40,514,081</u>	

#### vi. Liquidity risk

Liquidity risk is the risk that the Society, although solvent, is unable to meet payments as they fall due from cash or near cash holdings. The Society's objective on liquidity risk management is to ensure that sufficient funds are available over the short and medium-term to meet the needs of the Society. This includes new business costs, planned strategic activities, member withdrawals, claims payments and day to day cash flow requirements. Cash flows are generally predictable with fixed amounts due on fixed dates. Deaths and surrenders are less predictable but (under normal circumstances) are subject to well established trends. The increase in ISA balances may require the Society to hold additional liquidity in the future to meet withdrawals, but ISAs are regarded as relatively 'sticky' investments.

Any significant mismatch between cash inflows and outflows would be identified by the Executive Team and this would trigger a Board review of the level of liquid assets (particularly cash holdings) and the impact on the liquidity situation of writing new business.

The Society has a medium tolerance to liquidity risk, which means that cash and near cash holdings are kept at relatively modest levels so that yields are not adversely affected. Liquidity risk is considered relatively low given the predictable nature of most policy claims. The Society is currently and for the foreseeable future cash generative allowing it to meet the expectations of members without recourse to reserves.

Liquidity risk is managed as follows:

- 🍃 budgets are prepared to forecast the short-term and medium-term liquidity requirements;
- 🍃 monthly analysis is provided to the Finance & Investment Committee illustrating levels of liquidity and trend analysis;
- 🍃 assets of suitable marketability and maturity are held to meet the member liabilities as they fall due; and
- 🍃 credit risk of deposit takers is managed by having appropriate counterparty and credit limits in place.

#### vii. Fair value

The principal financial assets held at 31 December 2021, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Directly held investment properties	-	-	45,613	<b>45,613</b>
Debt securities	40,514	-	-	<b>40,514</b>
Equity securities	39,569	-	-	<b>39,569</b>
Real estate (exc. direct property)	-	6,368	-	<b>6,368</b>
Alternative assets	3,899	-	-	<b>3,899</b>

Please refer to page 40, note 2(a)(ii), for further details regarding the fair value hierarchies.

## 5. Earned premiums

	2021	2020
	£	£
Single premium income	<b>18,057,239</b>	14,329,494
Regular premium income	<b>3,598,294</b>	3,442,022
	<b><u>21,655,533</u></b>	<u>17,771,516</u>

## 6. Investment and other income

	2021	2020
	£	£
Gain on the sale of listed investments	3,341,220	-
Rental income receivable	2,631,776	2,390,672
Income from listed investments	1,790,897	1,667,151
CTF Unit Linked management charges received	663,175	583,132
Interest due from property development installations	125,523	-
Income from UK Real Estate Fund	121,282	110,604
Mortgage interest receivable	62,058	59,038
Gain on the sale of investment properties	28,417	-
Bank interest receivable	6,061	17,192
	<u>8,770,409</u>	<u>4,827,789</u>

## 7. Unrealised investment gains

	2021	2020
	£	£
Unrealised gain on listed investments: - With-Profits	-	4,609,123
- Unit Linked	6,777,572	-
Unrealised gain on UK Real Estate Fund	487,483	-
Unrealised gain on revaluation of investment properties	221,296	-
	<u>7,486,351</u>	<u>4,609,123</u>

## 8. Claims incurred

	2021	2020
	£	£
Endowments and matured policies	3,616,279	3,202,492
ISA withdrawals	4,144,142	2,867,765
Death benefits	1,799,467	2,341,492
Surrendered policies	540,988	535,750
Income Bond withdrawals	130,034	100,847
Additional benefits	11,293	6,051
	<u>10,242,203</u>	<u>9,054,397</u>

## 9. Acquisition expenses

	2021	2020
	£	£
Salaries, including national insurance	335,848	259,573
Pension contributions	29,638	31,852
Internal auditors and compliance consultant's fees	6,875	5,353
Actuary's fees	38,254	37,321
Auditors' fees	16,784	15,345
Legal and professional fees	20,212	8,913
PRA / FCA Regulatory fees	14,490	13,711
Board fees and expenses	24,059	16,570
Computer running costs	21,436	18,718
Website and software development	265	1,990
Postage	11,507	13,538
Printing and stationery	6,001	5,708
Insurance	7,965	2,204
Motor vehicle and travel costs	242	562
Bank charges	6,882	4,246
Miscellaneous expenses	1,250	1,380
Charitable donations and gifts	18,501	13,485
Office expenses	22,970	25,738
Entertaining	1,381	-
Advertising and promotional costs	144,000	124,375
Personnel and training	7,890	2,158
Fees and commissions paid	162,023	100,948
Depreciation - office furniture and equipment	1,618	1,774
Depreciation - motor vehicles	-	52
Depreciation - computer equipment	4,624	4,281
Depreciation - website development	4,920	-
Depreciation - software development	8,814	5,100
Gain on disposal of motor vehicle	-	(4,160)
	<u>918,449</u>	<u>710,735</u>



## Administrative expenses

	2021	2020
	£	£
Salaries, including national insurance	335,848	259,573
Pension contributions	29,638	31,852
Internal auditors and compliance consultant's fees	20,627	16,058
Actuary's fees	114,762	111,962
Auditors' fees	50,351	46,035
Legal and professional fees	60,635	26,738
PRA / FCA Regulatory fees	43,471	41,132
Board fees and expenses	72,176	49,711
AGM expenses	11,216	12,228
Computer running costs	43,523	38,002
Website and software development	537	4,040
Postage	23,362	27,487
Printing and stationery	12,183	11,588
Insurance	16,172	4,474
Motor vehicle and travel costs	81	187
Subscriptions	9,523	9,523
Bank charges	20,645	12,739
Miscellaneous expenses	2,539	2,803
Office expenses	22,970	25,738
Entertaining	1,381	-
Personnel and training	7,890	2,158
Depreciation - office furniture and equipment	4,854	5,321
Depreciation - motor vehicles	-	156
Depreciation - computer equipment	13,871	12,842
Depreciation - website development	14,759	-
Depreciation - software development	26,442	15,300
Recoverable VAT on expenses	(9,077)	(11,831)
Gain on disposal of motor vehicle	-	(1,387)
	<u>950,379</u>	<u>754,429</u>

## 10. Investment management expenses

	2021	2020
	£	£
Investment manager charges / commission	205,363	189,180
Property related charges	102,314	66,963
	<u>307,677</u>	<u>256,143</u>

## 11. Taxation

	2021	2020
	£	£
<b>Current Tax:</b>		
UK corporation tax	38,805	242,000
UK corporation tax re prior years	(27,385)	105,723
Deferred tax	180,525	-
Taxation attributable to long-term business	<u>191,945</u>	<u>347,723</u>

## 12. Employee costs

	2021	2020
	£	£
Salaries and wages	609,793	473,657
Social security costs	61,903	45,490
Pension costs	59,276	63,703
	<u>730,972</u>	<u>582,850</u>
Average number of employees:		
Executive	3	2
Management	1	2
Administration	15	11
	<u>19</u>	<u>15</u>

## 13. Board of Directors emoluments

		2021	2020
		£	£
Remuneration and attendance fees		354,795	242,683
Society pension contributions to defined contribution schemes		18,300	29,545
Expenses		1,167	1,049
Taxable benefits		1,129	752
Total emoluments		<u>375,391</u>	<u>274,029</u>
Chairman		<u>15,013</u>	<u>10,462</u>
Highest paid member:	Salary	117,775	95,000
	Pension contributions	10,350	25,045
	Taxable benefits	<u>376</u>	<u>376</u>

D Webb joined the Board as Chief Commercial Officer on 1 January 2021, increasing the number of Board members to 11.

Board members receive expenses for travel to and from Board meetings and for attending external meetings on Society business. Sub-committee meetings not held on the same day as full Board meetings are held by video conference.

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

	2021	2020
	No.	No.
£0 - £20,000	8	8
£20,001 - £95,000	2	1
£95,001 - £130,000	1	1

## 14. Unrealised losses on investments

		2021	2020
		£	£
Unrealised loss on revaluation of investment properties		-	(1,544,798)
Unrealised loss in UK Real Estate Fund		-	(142,035)
Unrealised loss on listed investments - Unit Linked		-	(5,206,552)
	- With-Profits	(1,875,913)	-
		<u>(1,875,913)</u>	<u>(6,893,385)</u>

## 15. Realised losses on investments

	2021	2020
	£	£
Realised loss on listed investments - With-Profits	-	<u>(2,020,405)</u>

## 16. Investments

	Note	2021	2020
		£	£
<b>Summary</b>			
<i>Measured at fair value</i>			
Land and buildings	(a)	<b>45,612,723</b>	41,394,959
<i>Measured at cost</i>			
Mortgages on land and buildings	(b)	<b>2,472,250</b>	971,250
		<u><b>48,084,973</b></u>	<u>42,366,209</u>
<i>Measured at fair value</i>			
Listed & OEIC Investments (excluding CTF)	(c)	<b>97,786,046</b>	87,105,498
<i>Measured at cost</i>			
Bank and money market deposits		<b>4,243,490</b>	2,055,328
		<u><b>102,029,536</b></u>	<u>89,160,826</u>
<i>Measured at fair value</i>			
Unit linked assets - CTF	(c)	<b>49,873,222</b>	42,332,476
		<u><b>199,987,731</b></u>	<u>173,859,511</u>

## 16(a). Land and buildings

Investment properties	
£	
<i>Cost or valuation</i>	
Balance as at 1 January 2021	<b>41,394,959</b>
Additions	<b>4,623,468</b>
Disposals	<b>(627,000)</b>
Revaluation in year	<b>221,296</b>
Balance as at 31 December 2021	<b><u>45,612,723</u></b>

The freehold and leasehold properties were revalued by Mr Chris Stott MRICS, Director at Brownill Vickers Limited. Mr Chris Stott MRICS is a fully qualified chartered surveyor and an RICS Registered Valuer. A formal valuation took place in December 2021 on an open market basis.

## 16(b). Mortgages on land and buildings

Commercial	
£	
Balance as at 1 January 2021	<b>971,250</b>
Advances during the year	<b>1,576,000</b>
Repaid during the year	<b>(75,000)</b>
Balance as at 31 December 2021	<b><u>2,472,250</u></b>

## 16(c). Investments at valuation

	2021	2020
	£	£
Sterling strategic bond fund	<b>41,294,875</b>	-
Multi asset growth strategy fund	<b>25,460,094</b>	-
UK equity fund	<b>20,720,172</b>	-
Global low carbon equity fund	<b>5,136,947</b>	-
Government securities	-	6,208,970
Emerging markets fund	-	10,895,362
Global special situations fund	-	8,301,161
Global strategic bond fund	-	5,767,805
Other listed investments		
- equities	-	21,796,416
- alternative assets	-	3,727,238
- fixed interest	-	25,843,354
UK real estate fund	<b>5,173,958</b>	4,565,192
	<b><u>97,786,046</u></b>	<u>87,105,498</u>
Child Trust Fund investments	<b>49,873,222</b>	42,332,476
Balances as at 31 December	<b><u>147,659,268</u></b>	<u>129,437,974</u>

An analysis of movements in investments during the year is provided below:

	Valuation as at 01.01.21	Purchases	Sales	Realised gains / (losses)	Unrealised gains / (losses)	Valuation as at 31.12.21
	£	£	£	£	£	£
British Gov't	6,208,970	1,192,511	(7,220,424)	(177,877)	-	-
Emerging mkts	10,895,362	400,000	(11,715,985)	420,623	-	-
Global spec. sits.	8,301,161	400,000	(10,163,385)	1,462,224	-	-
Strategic Bond Fund	5,767,805	4,100,000	(9,819,083)	(48,722)	-	-
Equities	21,796,416	4,347,335	(28,249,091)	2,105,340	-	-
Alternative	3,727,238	2,412,123	(6,300,006)	160,645	-	-
Fixed interest	25,843,354	5,422,826	(30,627,351)	(638,829)	-	-
Sterling strategic bond	-	42,830,000	-	-	(1,535,125)	41,294,875
Multi asset growth fund	-	25,558,000	-	-	(97,906)	25,460,094
UK equity fund	-	20,900,000	-	-	(179,828)	20,720,172
Global low carbon equity fund	-	5,200,000	-	-	(63,053)	5,136,947
UK RE fund	4,565,192	121,282	-	-	487,483	5,173,958
Global healthcare	-	1,000,000	(1,057,816)	57,816	-	-
	<b>87,105,498</b>	<b>113,884,077</b>	<b>(105,153,141)</b>	<b>3,341,220</b>	<b>(1,388,429)</b>	<b>97,786,046</b>
Unit linked	42,332,476	100,000	-	-	7,440,747*	<b>49,873,222</b>
	<b>129,437,974</b>	<b>113,984,077</b>	<b>(105,153,141)</b>	<b>3,341,220</b>	<b>6,052,318</b>	<b>147,659,268</b>

\*Includes CTF Unit Linked management charges received – see note 6

## 17. Fixed assets - summary

	Note	Cost	Depreciation	Value 31/12/2021	Value 31/12/2020
		£	£	£	£
Tangible	(a)	493,112	157,029	336,083	347,561
Intangible	(b)	276,561	102,609	173,952	167,997
<b>Total</b>		<b>769,673</b>	<b>259,638</b>	<b>510,035</b>	<b>515,558</b>

### 17(a). Tangible fixed assets

	Land & buildings	Fixtures & fittings	Computer equipment	Total
	£	£	£	£
<b>Cost</b>				
At 01/01/2021	300,000	89,765	89,858	479,623
Additions	-	3,624	9,865	13,489
Disposals	-	-	-	-
Revaluation	-	-	-	-
At 31/12/2021	<u>300,000</u>	<u>93,389</u>	<u>99,723</u>	<u>493,112</u>
<b>Depreciation</b>				
At 01/01/2021	-	74,082	57,980	132,062
Disposals	-	-	-	-
Charge for year	-	6,472	18,495	24,967
At 31/12/2021	<u>-</u>	<u>80,554</u>	<u>76,475</u>	<u>157,029</u>
<b>Net book value</b>				
At 31/12/2021	<u>300,000</u>	<u>12,835</u>	<u>23,248</u>	<u>336,083</u>
At 31/12/2020	<u>300,000</u>	<u>15,683</u>	<u>31,878</u>	<u>347,561</u>

The freehold property has been revalued in accordance with the details in Note 16(a).

## 17(b). Intangible fixed assets

	Website Development	Software Development	Total
	£	£	£
<b>Cost</b>			
At 01/01/2021	52,458	163,214	215,672
Additions	44,600	16,289	60,889
Disposals	-	-	-
Revaluation	-	-	-
At 31/12/2021	<u>97,058</u>	<u>179,503</u>	<u>276,561</u>
<b>Depreciation</b>			
At 01/01/2021	20,475	27,200	47,675
Disposals	-	-	-
Charge for year	19,678	35,256	54,934
At 31/12/2021	<u>40,153</u>	<u>62,456</u>	<u>102,609</u>
<b>Net book value</b>			
<b>At 31/12/2021</b>	<b><u>56,905</u></b>	<b><u>117,047</u></b>	<b><u>173,952</u></b>
At 31/12/2020	<u>31,983</u>	<u>136,014</u>	<u>167,997</u>

## 18. Capital commitments

At 31 December the Society had capital commitments as follows:

	2021	2020
	£	£
Contracted for, but not provided for in the financial statements	<u>16,835</u>	<u>3,103,014</u>



## 19(a). Long-term business provision - With-profits & other

	With-Profits	Other	2021 Total	2020 Total
	£	£	£	£
At 1 January	123,944,946	(35,166)	<b>123,909,780</b>	110,990,064
Change in long-term business provision	13,094,004	(195,534)	<b>12,898,470</b>	12,919,716
At 31 December	<b>137,038,950</b>	<b>(230,700)</b>	<b>136,808,250</b>	123,909,780

## 19(b). Long-term business provision - Unit Linked

	2021 Total	2020 Total
	£	£
At 1 January	<b>37,419,825</b>	41,746,326
Earned premiums	<b>608,894</b>	483,883
Withdrawals / transfers to other providers	<b>(626,532)</b>	(175,723)
Change in long-term business provision	<b>5,947,289</b>	(4,634,661)
At 31 December	<b>43,349,476</b>	<b>37,419,825</b>

## 19(c). Total change in long-term business provision

	2021	2020
	£	£
Total change in long-term business provision	<b>18,845,759</b>	<b>8,285,055</b>

## 20. Fund for future appropriations

	2021	2020
	£	£
At 1 January	19,594,838	20,708,682
Surplus / (deficit) for the year	4,579,968	(1,113,844)
At 31 December	<u>24,174,806</u>	<u>19,594,838</u>

## 21. Accruals and deferred income

	2021	2020
	£	£
Lapsed / matured / death policy claims outstanding	1,181,594	1,162,336
Deferred rental income	431,434	335,996
Administrative expenses	272,641	241,943
Rent deposits held on account	24,250	15,250
	<u>1,909,919</u>	<u>1,755,525</u>

## 22. Actuarial valuation and technical provision

An Actuarial Report on the assets and liabilities of the Society was last prepared as at 31 December 2021 and a copy of this Report may be inspected at the Registered Office of the Society.

## 23. Related party transactions

The Society's Board members (including executives) are required to be members of the Society and pay monthly or annual premiums, all such transactions are conducted at arm's length.

## ACTUARY STATEMENT IN ACCORDANCE WITH SECTION 77 OF THE FRIENDLY SOCIETIES ACT 1992

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

The Actuarial Function Holder and With-profits Actuary is Ms. Cara Spinks FIA, Consultant Actuary at OAC PLC ("OAC"). The Society has requested Ms. Spinks to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Ms. Spinks is not a member of the Society and has no other financial or pecuniary interests in the Society, with the exception of fees paid to OAC PLC ("OAC") for professional services, which amounted to £153,015 in 2021 (2020: £149,283).

# Society Information

<b>Registered office</b>	3 Maple Park Maple Court Wentworth Business Park Tankersley Barnsley S75 3DP Tel: 01226 741 000 Fax: 01226 741 222 Email: <a href="mailto:enquiries@sheffieldmutual.com">enquiries@sheffieldmutual.com</a> Web: <a href="http://www.sheffieldmutual.com">www.sheffieldmutual.com</a>
<b>Board of Directors</b>	Janet Barber (Senior Independent Director) Jamie Bellamy (Chief Executive) Stephen Birch Anthony Burdin Paul Galloway (Chief Operating Officer) Stephen Hindmarsh (Chairman) Courtney Marsh Stuart Plant-Hately (Chairman of ARC) Neil Spawforth (Chairman of FIC) Adrian Stone Andrew Thorpe Dawn Webb (Chief Commercial Officer)
<b>Chief Executive/Secretary</b>	Jamie Bellamy
<b>External auditors</b>	Royce Peeling Green Limited The Copper Room, Deva City Office Park Trinity Way Manchester, M3 7BG
<b>Internal auditors</b>	RSM Risk Assurance Services LLP Fifth Floor, Central Square 29 Wellington Street Leeds, LS1 4DL
<b>Solicitors</b>	Hill Dickinson 50 Fountain Street Manchester, M2 2AS
<b>Actuarial function holder and with-profits actuary</b>	C Spinks BSc FIA OAC PLC 141-142 Fenchurch Street London, EC3M 6BL
<b>Investment managers</b>	Russell Investments Ltd
<b>Bankers</b>	NatWest Bank plc

Registered under the Friendly Societies Act 1992 (Reg No 810F)

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register no. 139855)

Correspondence to the Board should be addressed to the Society's registered office

# Glossary

## Abbreviations

<b>AFM</b>	Association of Financial Mutuals
<b>AGM</b>	Annual General Meeting
<b>ARC</b>	Audit and Risk Committee
<b>CTF</b>	Child Trust Fund
<b>EIOPA</b>	European Insurance and Occupational Pensions Authority
<b>ESG</b>	Environmental, Social and Governance
<b>FCA</b>	Financial Conduct Authority
<b>FIC</b>	Finance and Investments Committee
<b>FRC</b>	Financial Reporting Council
<b>FRS</b>	Financial Reporting Standards
<b>GDPR</b>	General Data Protection Regulation
<b>IDD</b>	Insurance Distribution Directive
<b>ISA</b>	Individual Savings Account
<b>ISAs (UK)</b>	International Standards on Auditing (UK)
<b>NC</b>	Nominations Committee
<b>ORSA</b>	Own Risk and Solvency Assessment
<b>PPFM</b>	Principles and Practices of Financial Management
<b>PRA</b>	Prudential Regulation Authority
<b>RC</b>	Remuneration Committee
<b>RPI</b>	Retail Prices Index
<b>SCR</b>	Solvency Capital Requirement
<b>SID</b>	Senior Independent Director
<b>SM&amp;CR</b>	Senior Managers & Certification Regime
<b>WPAA</b>	With-Profits Advisory Arrangement







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