Sheffield Mutual
Est. 1892
For you, your family, your future

Financial Statements

Report & Accounts

2017

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Committee of Management	Janet Barber (Chairman) Jamie Bellamy (Finance Director) Stephen Birch Anthony Burdin (Chief Executive) Stephen Hindmarsh (Vice Chairman) Sheila Johnson Melvyn Lunn Neil Spawforth
Trustees	Melvyn Lunn Neil Spawforth
Chief Executive/Secretary	Anthony Burdin
External Auditors	BHP LLP 2 Rutland Park Sheffield S10 2PD
Internal Auditors	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4DA
Solicitors	Hill Dickinson 50 Fountain Street Manchester M2 2AS
Actuarial Function Holder and With-Profits Actuary	C Spinks BSc FIA OAC Actuaries and Consultants 141-142 Fenchurch Street London EC3M 6BL
Investment Manager	Investec Wealth & Investment Ltd
Bankers	NatWest Bank plc

Registered under the Friendly Societies Act 1974 (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 Committee should be addressed to the Society's registered office

Strategic Report
For the year ended 31 December 2017

CHAIRMAN'S REPORT

In my third year as Chair, I am very pleased to report another successful year for your Society. We have once again seen excellent growth in new policies and members. We have also increased premium income in accordance with our business plan, whilst controlling running costs well within our planned budgets. All of our interim bonus rates have been declared and our policy returns remained market leading.

We started work on two significant projects in 2017. First, we began to prepare for the implementation of the new General Data Protection Regulation (GDPR), which is effective from 25 May 2018. Your Society is well on course to be ready for the new requirements. Second, we commenced a scoping exercise to upgrade our main computer software. Apart from ensuring that we invest in the latest, most secure and reliable IT systems, we are planning to introduce new services to members as part of the upgrade.

As many of you will be aware, the Society marked its 125th anniversary in 2017 and we celebrated this milestone through the launch of a limited issue loyalty bond, available exclusively to long-standing members holding two or more policies. Many members took advantage of the bond and we received very positive feedback to the offer.

Our successes in 2017 are due to the hard work, dedication and commitment of the team of staff. Their aim is to always provide a friendly, professional, first class service to our members. I would like to thank them on behalf of the Committee for their achievements. I would also like to thank my Committee colleagues who share a commitment to work together in the best interests of our members.

The domestic economic uncertainty appears to have receded since my last report, as we perhaps move towards a softer "Brexit". I doubt whether many of us would have predicted the growth in global share prices seen over the past 12 months. Our members will see the benefit of this as a result of our decision to invest in the emerging markets fund, which generated an excellent return in 2017.

After a relatively calm 2017 for the financial markets, some commentators expect to see more volatility in 2018. I am relatively optimistic that the global economy will keep the markets moving ahead. However, we will remain vigilant to the risks and our portfolio of investments is well placed to ride out any short-term volatility, whilst also benefiting from any further gains.

I am grateful to our existing members for your continued support and it is again pleasing to welcome so many new members to the Society. We are planning to build on the success we have achieved, and will aim to continue to deliver excellent products and market-leading returns. It is our staff and members who give us our unique identity.

J Barber

Jan Barber
Chairman

STRATEGIC MANAGEMENT

Business Model

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 and Investment Bonds. These products are available through the following distribution channels:-

- direct from the Society or its introducers
- via the Society's website: www.sheffieldmutual.com
- or from professional financial advisers

Strategic Report - continued
For the year ended 31 December 2017

Business Model - continued

The Society's mission statement is: "Being a mutual and having no shareholders to satisfy, our aim is to improve the financial wellbeing of our members by providing transparent products, quality service and greater potential returns."

The Society's vision is: "To continue to be a successful independent mutual friendly society by maintaining market-leading returns for our members and operating in a compliant, ethical and financially sound manner."

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 has a three-strand distribution model, which can be summarised as follows:

- Intermediaries - Financial Adviser advised and non-advised sales and non-advised referrals
- Direct - Internet and on-line applications, local Heartland advertising and newspaper editorials
- Social Proof - Member referrals (Tell-a-Friend), Advocates, Community Fund, Social Media

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 surplus profit 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

Future Strategy and Objectives

The Committee'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 more than two thirds of our new business direct from members of the public through advertising campaigns, online marketing and recommendations. Around a third of new policies are applied for via our website (www.sheffieldmutual.com) and we will continue to develop the Society's online services.

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 line with our history, heritage and ethical values, Sheffield Mutual is committed to helping good causes in the course of doing business. During 2017 we donated more than £10,000 to various charities and good causes and we have made a commitment to increase our support in 2018.

The Society is well placed to remain a successful independent friendly society, being well run, financially strong, ethically minded and with good prospects for growth.

Strategic Report - continued
For the year ended 31 December 2017

BUSINESS ENVIRONMENT

Investments

Stock markets around the world performed strongly in 2017, enjoying their best annual performance since the post- financial crisis recovery. The biggest driver of the stock market rally has been the synchronised economic growth in the United States, Asia and Europe.

The FTSE 100 finished 2017 on a record high, rising to 7687.77 by 31 December 2017 – 7.6% higher than 12 months earlier and propelled by a recovery in commodity prices. Notwithstanding the domestic risks surrounding the Brexit negotiations and a weak Government majority, the UK appears to be quite resilient and there is a sense that business concerns are easing somewhat.

The Society's listed investments are managed professionally by Investec Wealth & Investment Ltd in accordance with a Committee approved mandate. The Society invested new money of £10 million through Investec in 2017 and after adjusting for the new money added during the year the portfolio, now totalling £41 million, produced a total annual return after charges (including income) of 9.2%.

Last year we reported a £3 million initial investment in the Fidelity Emerging Markets Fund as a means of diversifying our portfolio. The Society added a further £2 million to the Fund in 2017 and after a very strong year for global emerging economies, the Fund now stands at £6.2 million.

The Society's commercial properties continued to generate steady rental yields and the Committee expanded the portfolio with two new acquisitions in 2017, whilst also completing the final instalment on a staged completion where the land was acquired in 2016. The new acquisitions were a hotel in Huddersfield, tenanted by Travelodge and a retail development at Chorlton, Greater Manchester, tenanted by M&S and Barnardo's. Both new properties have the benefit of long-term commercial leases backed by strong covenants. The Society now owns 45 geographically diversified commercial properties with a total value of circa £38.8 million.

Although the Society's commercial properties are well diversified, the Committee is conscious that the Society is unable to acquire larger property assets on a directly owned basis, particularly in London and the South-East. Therefore, in order to improve the diversity of our property assets, the Society made an initial £2 million investment in the Schroders UK Property Fund.

The positive stock market performance resulted in an unrealised gain of £6.67 million for the year, after allowing for a very small decrease in the market value of property assets. The Society's available capital increased from £15.038 million to £17.154 million with a solvency ratio of 163%; thereby maintaining a strong financial base. The Society's investment income was £4.59 million and after taking account of the unrealised gains the overall return on the non-CTF assets for the year was 8.01%.

The Committee makes investment decisions for the long-term and, whilst remaining alert to short-term market volatility, we are focussed on maintaining consistent returns and the security of our members' funds. The positive investment performance, combined with effective cost control, has enabled us to declare the interim annual bonuses on all policy types for 2017. We are also boosting pay-outs to members through the payment of improved final bonuses where appropriate. Our investment advisers and many other commentators are cautiously optimistic about the prospects for 2018, but are also mindful of the risks. Therefore, the Committee will continue to manage the potential volatility by focusing on quality, balance and diversity when making investment decisions.

Strategic Report - continued
For the year ended 31 December 2017

Investments - continued

The next table shows the asset split of the Society's investment fund at the end of 2017, with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

	2017	2016	2015
	%	%	%
Property	45.01	48.76	41.07
Mortgages on land and buildings	1.07	1.48	4.11
Listed investments: - equities	25.86	25.61	26.59
- fixed interest	22.39	17.75	20.41
- alternative assets	2.97	3.32	4.45
Cash (excluding current account funds)	2.70	3.08	3.37
	100.00	100.00	100.00

The Committee increased the size of the fixed interest portfolio by investing surplus cash in Government Gilts and Corporate Bonds. This was a prudent move to achieve a reduction in the risk profile of the asset portfolio, which will be continued in 2018. The percentage held in equities was also increased very slightly primarily due to an increased exposure to global emerging markets. The proportion held in property was reduced in order to improve the overall diversity of the fund.

The Society seeks to adopt an ethical approach to investing and it is our aim not to invest knowingly or directly in industries relating to armaments, tobacco, gambling or pornography.

Principal Risks and Uncertainties

The Committee is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and the Committee seeks to adopt a low-to-medium 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 Committee's Report and the Committee 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 Committee 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 Committee 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 Committee'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.

Strategic Report - continued
For the year ended 31 December 2017

CHIEF EXECUTIVE'S BUSINESS REVIEW

Introduction

I am pleased to report another solid business performance for Sheffield Mutual in 2017, which saw our premium income reach a record £19.7 million. The highlights of our performance are as follows:

- Total assets increased by 22% to a record £138.4 million
- Traditional premium income increased by 13% to £19.7 million
- New policies increased by 4% to 1,996
- Traditional membership increased by 6% to 11,294
- Including the Child Trust Fund we now have 78,317 policies and accounts

Members and Policies

The Society achieved strong growth in premium income and new policies in 2017, resulting in 1,092 new members and an increase of around 9% in the total number of traditional policies held. The growth was again driven by new premiums and top-ups to our Investment ISA, which provides investors with a potentially higher return than a Cash ISA, but with less risk than a conventional Stocks & Shares ISA.

Our website accounted for around a third of new policy applications, but our members also value the Society's ongoing commitment to providing quality personal service either face-to-face or via the telephone. The number of Child Trust Fund (CTF) accounts remained broadly flat due to the product no longer being available for new business. Existing CTF accounts will continue until maturity at age 18.

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

Year Ending	Number of Members (Excl CTF)	Number of Policies (Excl CTF)
31.12.15	9,955	12,416
31.12.16	10,678	13,654
31.12.17	11,294	14,837

Year Ending	Number of New Members (Excl CTF)	Number of New Policies (Excl CTF)
31.12.15	1,218	1,736
31.12.16	1,130	1,915
31.12.17	1,092	1,996

Year Ending	Number of New CTF Accounts	Number of CTF Accounts
31.12.15	9	63,731
31.12.16	9	63,612
31.12.17	13	63,480

Premium Income and Assets

During 2017 the Society again looked to achieve a sustainable level of controlled growth, whilst also taking advantage of the popularity of our plans. Your Committee monitors new business volumes to ensure that the level of growth is not at the expense of maintaining competitive bonus rates for existing members and maintaining the Society's financial strength. With this in mind, I can report that our growth was in line with the approved business plan.

Strategic Report - continued
For the year ended 31 December 2017

Premium Income and Assets - continued

The Society's traditional premium income increased by 13% to £19.7 million, with subscriptions and external transfers to the Investment ISA generating circa £11.5 million (58%) of the total. This included ISA top-ups of around £4.3 million from existing members.

Regular premiums, mainly to the Tax Exempt Savings Plan, amounted to £2.9 million and, therefore, accounted for around 15% of the total. We remain one of the top performers in the with-profits regular premium pure endowment league tables over 10, 15, 20 and 25 years.

The Society's unit-linked Stakeholder Child Trust Fund attracted premium income of £0.48 million during the year, made up of transfers from other providers and additional subscriptions to existing accounts.

The growth in our business resulted in a 22% increase in total assets at the end of the year to a record £138.4 million. Excluding the CTF, the Society's assets increased by 25% to £96.0 million.

Year Ending	Premium Income (Excl CTF)	Assets (Excl CTF)
	£'000	£'m
31.12.15	13,050	58.6
31.12.16	17,541	76.6
31.12.17	19,662	96.0

Year Ending	CTF Premium Income	Total Assets (Incl CTF)
	£'000	£'m
31.12.15	483	90.4
31.12.16	438	113.8
31.12.17	476	138.4

Policy Returns and Bonuses

The Committee declared annual policy bonuses worth in excess of £1.5 million for members in 2017 and all with-profits bond, ISA and endowment policies had their interim bonus rates declared in full. The Committee also increased final bonus rates on bonds encashed after five years, maintained the final bonus rates on maturing regular premium endowments and extended the qualifying final bonus years for the Investment ISA.

Summary

I am delighted to conclude that the Society has performed very well in all areas of our business in 2017 and that we are continuing to grow our assets, premium income and membership. I would like to thank my management team and staff for their hard work and dedication, and our members and the Committee for their continued support and encouragement.

I am confident that we are well placed to grow our business in 2018.

A Burdin

Tony Burdin
Chief Executive

Committee's Report
For the year ended 31 December 2017

Committee of Management

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

Mrs J Barber	Committee/Chairman
Mr J Bellamy	Committee/Finance Director
Mr S Birch	Committee/Vice Chairman (Vice Chairman until 27 July 2017)
Mr A R Burdin	Committee/Chief Executive
Mr T Burton	Committee/Trustee (retired 10 June 2017)
Mr S Hindmarsh	Committee/Vice Chairman (Vice Chairman from 27 July 2017)
Mrs S Johnson	Committee
Mr M Lunn	Committee/Trustee
Mr N Spawforth	Committee/Trustee (Trustee from 10 June 2017)

Responsibilities of the Committee of Management

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

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

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

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

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

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

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

The Committee 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.

Committee's Report - continued
For the year ended 31 December 2017

Going Concern

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

Operating Powers

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

Solvency

The Society had the required margin of solvency as prescribed in regulations made by the Prudential Regulation Authority for its relevant classes of business at 31 December 2017.

Complaints by Members

The Society has a documented complaints procedure and aims to treat its members fairly. There were two reportable complaints in 2017, both of which were resolved internally to the members' satisfaction.

Finance & Risk Sub-Committee

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

- to review monthly Income & Expenditure
- to review the Balance Sheet on a quarterly basis
- to consider and review recommendations from, and performance of, the Society's investment manager and agree sales, purchases and investment mandates as necessary
- to monitor the Society's property portfolio and agree sales and purchases within delegated limits
- to monitor the Society's risks, ensuring that they are managed effectively
- to monitor outstanding audit observations, ensuring that any recommended actions are carried out

Risk Management

The oversight and direction of the Committee remains central to risk management and it ensures, through the Finance & Risk Committee, 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 Committee ensures exposed risks are aligned to the Society's risk appetite and that any unacceptable risk exposures are identified and either terminated or where appropriate mitigated.

Committee's Report - continued
For the year ended 31 December 2017

Risk Management - continued

In addition to the ongoing assessment of known risk exposures, the Chief Executive and Finance Director monitor external and emerging risks within the Society's forward-looking Risk Matrix, which is reviewed by the Finance & Risk Sub-Committee on a quarterly basis. Risks which could threaten the Society's business model are assessed, managed and mitigated through a process known as reverse stress testing. The full Committee is provided with an Annual Risk Analysis, which summarises the Society's principal risks and how they are managed and mitigated. The ORSA is also central to the risk management framework.

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 Chief Executive and Finance Director are proactive in monitoring the efficiency of internal controls and the Committee reviews the effectiveness of its internal control systems at least annually by receiving reports from an external compliance consultant and our internal auditors, KPMG. The internal auditors carry out an independent risk-based audit each year in accordance with industry standards and guidance, including several days on site, and work to a Committee approved programme designed to evaluate and improve the effectiveness of risk management, controls and governance processes. Their reports are considered by the full Committee and action taken where appropriate.

External Audit

The Society has no distinct audit committee but the work normally undertaken by an audit committee is carried out by the full Committee of Management. The current external auditors, BHP LLP, Chartered Accountants, have acted in this capacity since 2004. They provide no non-audit services which would affect their objectivity and independence. In order to comply with the new audit directive, the external audit service was re-tendered in 2017, with BHP re-appointed, and this exercise will be repeated at least every 10 years.

The effectiveness of the external audit process is assessed by the Committee based on a comprehensive audit strategy and methodology, which is reviewed and approved by the Committee prior to the audit commencing. The auditors liaise with the Committee via Mr M Lunn (Trustee) during the audit planning and completion stages. The Committee 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 two Trustees supported by the With-Profits Actuary and its role is to act in an advisory capacity to inform the decision making of the Committee of Management 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.

Committee's Report - continued
For the year ended 31 December 2017

Report of the Committee to With-Profits Policyholders

The Committee 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 Committee has exercised discretion in its decisions. This report will be available from the Society's website before 30 June 2018.

Corporate Governance

In 2017 the Committee comprised of the non-executive Chairman, two Trustees, three other non-executive members (four until 10 June 2017) and two executive members (Chief Executive and Finance Director). Biographies for each of these are shown on pages 16-17 and the Committee believes that the balance of skills and experience of the members is appropriate to the current requirements of the business. Furthermore, it believes that all Committee members are independent in character and judgement.

The Committee determines the strategic direction of the Society and reviews its operating and financial position. The Committee met on ten occasions during 2017 and there is a schedule of regular reports and information, which they consider at the meetings and which is agreed annually. Reports are provided to the Committee in advance of each meeting. The Chief Executive is responsible for carrying out the agreed strategy and, together with the Finance Director, 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 Committee and these include:

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

The Chairman is responsible for ensuring that members of the Committee 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 Committee and between senior management and the Committee. The roles of Chief Executive and Secretary should ideally be split, but the Committee 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 Committee and Sub-Committee can also obtain assistance from the Finance Director and other staff members if required.

Annotated UK Corporate Governance Code

The Society has adopted the Annotated Version of the UK Corporate Governance Code for Mutual Insurers (the "Code") and submits a monitoring questionnaire, along with other mutual societies, to the Association of Financial Mutuals, who will in turn report to the regulators. The Chairman ensures that the Code's principles relating to the role and effectiveness of the Committee are appropriately and proportionately applied and can confirm compliance with the Code for 2017-18, with the exception of the following, which we identify under the 'comply or explain' regime.

1. There is no Senior Independent Committee member, but the Vice Chairman has been nominated to receive any items from members or other Committee members, where they do not feel that an issue can be resolved by either the Chief Executive or Chairman.

Committee's Report - continued
For the year ended 31 December 2017

Annotated UK Corporate Governance Code - continued

2. Proportionate to the size and complexity of the business, the Society does not have distinct Nomination and Remuneration or Audit Committees, but matters which would be dealt with by such committees are reviewed by the full Committee.

3. Rather than being subject to annual election, Committee members are subject to election every three years in accordance with the Society's Rules. However, Committee members who have served in their position for more than nine years, providing they are still providing balanced views on issues facing the Society, will offer themselves for annual re-election.

4. The Code suggests that the evaluation of the board should be externally facilitated at least every three years. The Committee believes that this is disproportionate to the Society's scale of operations, but the documentation used for the internal evaluation, which is led by the Chairman, has been reviewed externally.

5. A significant proportion of executive directors' remuneration is not structured so as to link rewards to corporate and individual performance, as the Chief Executive and Finance Director are responsible for carrying out various functions, including compliance, secretarial, risk management and financial accounting. The Committee is of the view, therefore, that significant executive incentives and bonuses could result unintentionally in behaviours that would be in conflict with the Society's culture and risk appetite.

6. As the Chief Executive and Finance Director are very close to the day-to-day operations of the business and most Committee members have regular contact with members, we have not established formal member forums or panels in order to ensure that the views of members are understood and communicated. Our member services team listens carefully to feedback from members and ensures that views are communicated to Committee members.

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 Committee and I may judge that some of the Code provisions are disproportionate given the size and complexity of the business. However, as set out in the 'comply or explain' statements above, the Committee aims to apply the spirit of the principles and provisions of the Code in a manner with less onerous resource implications. Moreover, the Committee's intention is to adopt the highest standards of corporate governance for an organisation of our scale and in the best interests of our members.

J Barber - Chairman

Attendance at Meetings

	Committee		Finance	
	Number of Meetings	Attended	Number of Meetings	Attended
J Barber	10	10	12	12
T Burton	5	5	5	4
M Lunn	10	10	12	12
J Bellamy	10	10	12	12
S Birch	10	8	4	4
A Burdin	10	9	12	10
S Hindmarsh	10	10	5	5
S Johnson	10	10	5	5
N Spawforth	10	10	9	9

Committee's Report - continued
For the year ended 31 December 2017

Committee Evaluation

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

The Vice Chairman co-ordinates the responses to a questionnaire relating to the performance of the Chairman in carrying out her duties and the results are discussed without the Chairman being present. The performance of the Chief Executive and Finance Director are reviewed by the Committee.

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

There is a succession plan in place which has identified potential replacement dates and skills requirements. Subject also to the Society's rules, new appointments to the Committee are being made on the basis of three year terms. Where Committee members have held their position for more than nine years, they will be subject to re-election at the Society's Annual General Meeting on a year by year basis.

The Society has a formal diversity policy for Committee appointments. The Society sees diversity at Committee 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 and other qualities of Committee members. These factors will be considered in deciding the best composition of the Committee and, when possible, should be balanced appropriately. All Committee appointments will be made on merit based on the skills and experience required to best meet the role specification and make an effective contribution.

There were no new appointments to the Committee in 2017, nor any change to the Chairman. Mr S Hindmarsh replaced Mr S Birch as Vice-Chairman on 27 July 2017.

There are four Committee members and a Trustee offering themselves for re-election at the Annual General Meeting (AGM) and the Chairman confirms that, following formal performance evaluations, the individuals remain effective and that they continue to demonstrate commitment and independent judgement to the role. She recommends therefore that they should be re-elected.

Mr T Burton retired from the Committee and as a Trustee at the 2017 AGM, having reached 70 years of age. Mr N Spawforth was elected as Mr Burton's replacement as Trustee.

There are no planned non-executive retirements in 2018, but there are two in 2019. These vacancies will be filled through an open recruitment process, including the Society's annual Newsletter, and will commence this year.

Report on the Committee Members' Remuneration

Committee 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 Committee 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 Association of Financial Mutuals (AFM) or any other such organisation, as a comparable measure, to ensure salaries and fees remain attractive.

Committee's Report - continued
For the year ended 31 December 2017

Report on the Committee Members' Remuneration - continued

During 2017 the non-executive Committee members were remunerated for their attendance at meetings, with a daily meeting attendance fee of £75 for the Finance & Risk sub-Committee, £100 for the Committee of Management and £150 if attending both meetings on the same day. They were also reimbursed for travel costs. Retainer fees were £7,500 for the Chairman, £7,000 for the Trustees and £5,000 for other non-executive Committee members. The fees are neither pensionable nor performance-related. The remuneration of the Chairman is decided by other Committee members and the Committee agrees their own fee rates. Non-executive fee levels are reviewed triennially, with the last review implemented in 2016.

The Chief Executive and Finance Director are employed on salaried contracts, which require six or three months notice respectively by either party. Their salary packages are reviewed annually by the Committee without them being present. They 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 and up to £5,000 for the Finance Director, which may be paid as pension contributions.

The Committee believes that the current remuneration structure, introduced in 2016 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.

Committee Members' Emoluments

	Salary/Fees & Expenses £	**Taxable Benefits £**	**Pension Contributions £**	**2017 Total £**	2016 Total £
Chairman					
J Barber	9,705	-	-	9,705	9,632
Trustees					
T Burton (until 10 June 2017)	4,855	-	-	4,855	10,077
M Lunn	8,854	-	-	8,854	8,808
N Spawforth (from 10 June 2017)	7,853	-	-	7,853	6,503
Committee					
S Birch	7,128	-	-	7,128	6,607
S Hindmarsh	6,804	-	-	6,804	6,757
S Johnson	6,638	-	-	6,638	6,309
Chief Executive					
A Burdin	110,000	-	39,588	149,588	132,250
Finance Director					
J Bellamy	60,000	-	4,250	64,250	46,725

Committee's Report - continued
For the year ended 31 December 2017

Members of the Committee of Management

Jan Barber, Age 62 - Chairman

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 became Chairman in 2015 and brings a wealth of relevant skills to the Committee of Management, particularly in the areas of customer services, 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 Cookridge, Leeds and in her spare time she enjoys gardening, walking and reading.

Stephen Hindmarsh, Age 65 – Vice Chairman

Stephen is a retired solicitor who was in practice as a partner with a major regional legal firm. Stephen has more than 36 years' experience of legal work and also the marketing and management expertise needed to operate as a partner in such a firm. At all times during his years in practice Stephen acted for friendly societies including Sheffield Mutual. As a result of this background he has a good working knowledge of the Friendly Society movement, of the issues which affect friendly societies and other mutual organisations and knowledge of the legal structures and statutory provisions that underpin those structures. Since his retirement Stephen has volunteered at his local Citizens Advice Bureau and is now a debt adviser. He is treasurer of the Manchester Area Cross Country League and regularly attends the matches which the League organise. Stephen's hobbies are cycling, swimming and hill walking.

Melvyn Lunn, FCA MCMI AIC CIHM, Age 69 - Trustee

Melvyn qualified as a Chartered Accountant over 40 years ago and has worked both in the public and private sectors and latterly in private practice until his retirement in 2015. He holds a number of non-executive and trustee positions, including Barnsley Community Build (non-remunerated director and a trustee) and Chair of Priory Campus (non-remunerated and a trustee). He is Hon Treasurer of Silverwood Scout Camp (non-remunerated), where he is also a trustee. Melvyn is Chair of the Joint Independent Audit Committee of the South Yorkshire Police and Crime Commissioner and Chief Constable (remunerated). He is also a trustee of the South Yorkshire Community Foundation (non-remunerated) and a director of Doncaster West Development Trust (non-remunerated). He is married to Anne and has two sons.

Neil Spawforth, MRICS, Age 42 - Trustee

Neil has over 20 years' experience as a Chartered Surveyor and his knowledge of commercial property is of great value to the Society. Neil was elected as a Trustee in 2017 and previously served as Vice Chairman from 2012 to 2015. Neil is employed as a General Manager at Community Solutions Partnership Services, where he is involved in the management of Primary Care facilities across the north of England. Neil also holds directorships for Bradford & Airedale Community Solutions Ltd, Bury, Tameside and Glossop Community Solutions Ltd, Brenmull Ltd, Locan Properties Ltd and Lagmore Properties Ltd. None of these companies are connected with the Society and there are no conflicts of interest. Neil has been a member of the Society since 2007 and lives in Altofts, West Yorkshire, with his wife Charlotte and their two children.

Committee's Report - continued
For the year ended 31 December 2017

Members of the Committee of Management - continued

Jamie Bellamy, ACCA, PgD, LLB (Hons), Age 32 – Finance Director

Jamie joined the Society on 16 June 2014 as Finance Manager and became the Finance Director on 24 October 2015. Jamie qualified as a Certified Accountant five years ago 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. As Finance Director he is responsible for producing the Society's financial information, regulatory reporting and management of the Society's financial assets. Jamie enjoys running and playing a variety of sports and lives with his wife and son in Penistone, South Yorkshire.

Stephen Birch, MIET, Age 63

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 Committee since 1989 including as President from June 1998 to 2000 and as Vice Chairman for two terms. Stephen's hobbies include theatre, DIY, gardening and historic vehicle preservation.

Anthony Robert Burdin, Age 56 – Chief Executive

Tony joined the Society in March 2009 as Chief Executive and throughout the past nine years he has led the continued growth and development of the Society. During this period Tony has overseen a significant increase in the Society's assets and premium income, whilst delivering market-leading returns for members. He has worked in the mutual sector for 38 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.

Sheila Johnson, FCIB, Age 69

Sheila has over 40 years experience in the financial services sector, most of them with building societies. More recently, Sheila held various senior positions with The Mansfield Building Society and was the Society's Compliance and Employee Development Executive until her retirement at the end of 2008. She has been a member of the Society's Committee since 2009 and was Vice Chairman in 2011 and Chairman from 2012 to 2015. Sheila lives in South Yorkshire.

Committee's Report - continued
For the year ended 31 December 2017

Statement of Disclosure to Auditors

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

The Committee of Management 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 2017 of which the auditors are unaware;

And,

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

By Order of the Committee

J Barber – Chairman 16 March 2018

Income and Expenditure Account
For the year ended 31 December 2017

	Note	2017 £	2016 £
Technical Account - long term business			
INCOME			
Earned premiums	5	**19,662,258**	17,541,235
Investment and other income	6	**4,594,312**	3,847,289
Total Income		**24,256,570**	21,388,524
EXPENDITURE			
Claims incurred	7	**(5,204,555)**	(3,404,164)
Change in long term business provision	17	**(22,167,844)**	(20,449,338)
Net operating expenses			
Administrative expenses	8	**(1,272,475)**	(1,225,938)
Investment expenses and charges			
Investment management expenses	9	**(258,142)**	(132,546)
Net unrealised gains / (losses) on investments	13	**6,672,562**	6,149,451
Taxation attributable to long term business	10	**(85,674)**	(48,469)
Transfer from / (to) fund for future appropriations	18	**(1,940,442)**	(2,277,520)
Balance on the Technical Account		-	-

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 14.

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

Balance Sheet
As at 31 December 2017

	Note	2017 £	2016 £
ASSETS			
Investments			
Land, buildings and commercial mortgages	14	**39,813,520**	34,209,028
Other financial investments	14	**50,899,676**	33,894,429
		90,713,196	68,103,457
Assets held to cover linked liabilities	14	**42,387,596**	37,211,590
Other assets			
Tangible fixed assets	15	**332,613**	340,106
Cash at bank and in hand		**4,334,328**	7,274,129
Prepayments and accrued income			
Accrued interest and rent		**164,928**	221,990
Other prepayments and accrued income		**473,258**	662,718
Total Assets		**138,405,919**	113,813,990
LIABILITIES			
Fund for future appropriations	18	**(17,580,849)**	(15,640,407)
Technical provisions			
Long term business provision	17	**(80,963,468)**	(62,788,887)
Technical provision for linked liabilities	17	**(38,842,884)**	(34,489,810)
Creditors			
Other creditors including taxation and social security		**(264,994)**	(129,863)
Accruals and deferred income	19	**(753,724)**	(765,023)
Total Liabilities		**(138,405,919)**	(113,813,990)

The financial statements were approved by the Committee of Management on 16 March 2018

J Barber	**J Bellamy**	**A Burdin**
Chairman	Finance Director	Chief Executive

Notes to the Financial Statements
For the year ended 31 December 2017

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 insurancecontracts.

The Committee of Management have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue 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 3 months.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(e) Investments - continued

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

Office, motor vehicles, computer equipment, and website development 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

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 11. None were outstanding at the year end.

(k) Fund for future appropriations

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

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(l) 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.

(m) 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.

(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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Society's accounting policies, the Committee of Management are 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 Committee of Management, there are two key estimates and assumptions which could have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are discussed in more detail below.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - continued

(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 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 Committee of Management use their 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 A) and the lowest priority to unobservable inputs (Level C). The three levels of the fair value hierarchy are as follows:

• Level A – 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 B – 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 C – 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.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

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 2017 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.

	2017	2016
	£000	£000
Solvency Capital Requirement	**10,526**	11,056
Available capital resources	**17,581**	15,640
Less property acquisition costs	**(427)**	(602)
Total available capital resources	**17,154**	15,038
Solvency cover	**163%**	136%

The methodology used to calculate the LTBP has been improved since the 2016 year end, and the capital calculation allows for a change in assumed management actions when compared with those assumed at the end of 2016. This will mean that a comparison between the results at the end of 2017 will be inconsistent with those at the end of 2016.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

3. CAPITAL STATEMENT - continued

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

	2017	2016
	£000	£000
Opening fund for future appropriation	**15,640**	13,363
Transfer to fund for future appropriation from Income and Expenditure account	**1,941**	2,277
Closing fund for future appropriation	**17,581**	15,640

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 in the table above, the capital resources requirement amounts to £10.526m and is determined in accordance with capital requirements as defined by Solvency II. As at 31 December 2017 the Society's capital resources were 163% of its capital requirements.

Approximately 45% of the fund excluding the Child Trust Fund business is held in property and approximately 29% is held in equities. These are sensitive to market movements in general. About 22% is held in UK bonds and gilts, and changing market conditions can affect bond values and future returns. Each bond also has its own individual credit risk. About 1% 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 at 31 December 2017.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(a) Basis of calculation of available capital resources - continued

The main assumptions used in the statutory valuation carried out as at 31 December 2017 are set out below.

• Valuation Interest Rate
Solvency II risk free yield curve

• Mortality
All applicable tables: 40% 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

• 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%	-647
Expense allowances	-10%	647
Change in rate of mortality (%ELT)	10%	-254
Change in rate of mortality (%ELT)	-10%	267
Change in fixed interest yields	EIOPA shock up	1,649
Change in fixed interest yields	EIOPA shock down	-756
Fall in fixed interest asset value	-10%	-1,109
Fall in equity values	-10%	-1,992
Fall in property values	-10%	-2,100

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 property values. The Society has 45% of its assets in properties and a 10% fall in values leads to a reduction in available capital of £2.100m.

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.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(c) Analysis of change in capital resources

	2017	2016
	£000	£000
Total available capital resources at 1 January	**15,640**	13,363
Premiums less claims and expenses	**13,185**	12,911
Investment income less tax	**4,251**	3,666
Unrealised (losses) / gains on investments	**6,673**	6,149
Change in mathematical reserves	**(22,168)**	(20,449)
Total available capital resources at 31 December	**17,581**	15,640

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 Committee 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 Committee at least bi-annually.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(a) Insurance risk - continued

i) 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 below. This analysis excludes unit linked liabilities and includes an apportionment of the expense reserve.

	2017	2016
	£000	£000
Sickness and death	**1,410**	1,548
Pure endowments	**14,195**	12,364
Endowments	**715**	572
Taxable saving plans	**6,216**	5,266
Investment bond	**18,396**	13,113
ISA	**40,793**	30,287
Pension bond	**1,076**	1,235
Other	**963**	846
Total	**83,764**	65,231

(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 Committee of Management is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(b) Financial risk management - continued

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 & Risk Committee oversees the investment policy and strategy, which the Society implements through the use of investment mandates. Each mandate aims to manage the market risk using some or all of the following mechanisms:

- defined performance benchmarks;
- limits on asset allocation by asset type, market capitalisation and geographical spread.

Concentration of market risk

The following tables provide details of the Society's equities by sector and region.

	United Kingdom £	Emerging Economies £	Grand Total £
Oil & Gas Producers	2,111,455	-	2,111,455
Basic Materials	1,279,140	-	1,279,140
Industrials	513,190	-	513,190
Consumer Goods	1,610,510	-	1,610,510
Health Care	1,350,395	-	1,350,395
Consumer Services	874,170	-	874,170
Telecommunications	470,000	-	470,000
Utilities	394,530	-	394,530
Financials	4,443,660	-	4,443,660
Technology	199,500	-	199,500
Investment & Unit Trusts	4,006,543	-	4,006,543
Property	1,593,185	-	1,593,185
Infrastructure	1,099,460	-	1,099,460
Open Ended Investment Companies	-	6,203,372	6,203,372
Total	**19,945,738**	**6,203,372**	**26,149,110**

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(b) Financial risk management - continued

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;
- diversified portfolio of commercial mortgages to reduce the potential impact of default;
- defined commercial lending policy with strict underwriting guidelines;
- counterparty limits are in place for cash deposits;

The Society's debt securities are mainly investment grade and the Society does not expose itself to sub-prime debt securities.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(b) Financial risk management - continued

Concentration of credit risk

The following tables provide details of the Society's bonds by sector and region.

	United Kingdom £	North America £	Europe £	Emerging Economies £	Grand Total £
British Government funds	3,448,575	-	-	-	3,448,575
UK fixed interest	13,946,201	-	-	-	13,946,201
Overseas fixed interest	-	654,086	1,071,425	1,192,015	2,917,526
Total	**17,394,776**	**654,086**	**1,071,425**	**1,192,015**	**20,312,302**

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 recent 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 Finance Director and / or Chief Executive and this would trigger a Committee 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. This approach is considered appropriate given the predictable nature of most policy claims and the fact that the Society is a positive cash generator.

Liquidity risk is managed as follows:

- budgets are prepared to forecast the short term and medium term liquidity requirements;
- 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.

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(b) Financial risk management - continued

vii. Fair value

The principal financial assets held at 31 December 2017, analysed by their fair value hierarchies were:

	Level A £000	Level B £000	Level C £000	Total £000
Investment properties	-	38,842	-	**38,842**
Debt securities	20,312	-	-	**20,312**
Equity securities	17,253	-	-	**17,253**
Emerging market securities	6,203	-	-	**6,203**
Alternative assets	2,693	-	-	**2,693**
UK Real Estate fund	1,986	-	-	**1,986**

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

5. EARNED PREMIUMS

	2017 £	2016 £
Single Premium Income	**16,551,624**	14,687,089
Regular Premium Income	**3,110,634**	2,854,146
	19,662,258	17,541,235

6. INVESTMENT AND OTHER INCOME

	2017 £	2016 £
Rental income receivable	**2,528,040**	2,008,383
Income from listed investments	**1,259,323**	1,090,094
CTF Unit Linked management charges received	**544,587**	459,801
Gains on the sale of listed investments	**172,524**	130,688
Mortgage interest receivable	**57,945**	125,103
Gain on disposal of investment property	**10,881**	-
Bank interest receivable	**10,526**	33,220
Income from UK Real Estate Fund	**10,486**	-
	4,594,312	3,847,289

Notes to the Financial Statements - continued
For the year ended 31 December 2017

7. CLAIMS INCURRED

	2017	2016
	£	£
Endowments and matured policies	**1,885,394**	1,228,225
ISA withdrawals	**1,676,206**	1,035,753
Death benefits	**1,174,374**	579,194
Surrendered policies	**402,019**	509,334
Income Bond withdrawals	**60,980**	46,148
Additional benefits	**5,462**	4,947
Sickness benefits	**120**	563
	5,204,555	3,404,164

8. ADMINISTRATIVE EXPENSES

	2017	2016
	£	£
Salaries, including national insurance	**376,161**	314,447
Pension contributions	**56,657**	45,366
Internal auditors and compliance consultant's fees	**18,483**	14,425
Actuary's fees	**173,775**	158,575
Auditor's fees	**60,000**	59,220
Legal and professional fees	**24,719**	46,869
PRA / FCA Regulatory fees	**46,246**	40,030
Committee of Management fees and expenses	**51,836**	55,583
AGM expenses	**10,077**	8,027
Computer running costs	**48,337**	51,307
Website and software development	**2,352**	14,910
Postage	**25,839**	17,958
Printing and stationery	**15,876**	16,961
Insurance	**7,492**	9,714
Motor vehicle and travel costs	**2,613**	1,635
Subscriptions	**3,961**	2,576
Lodge expenses	**459**	594
Bank charges	**18,532**	13,225
Miscellaneous expenses	**2,854**	2,328
Charitable donations	**10,724**	10,347
Office expenses	**48,434**	49,033
Entertaining	**714**	749
Advertising and promotional costs	**118,275**	116,435
Personnel and training	**3,832**	9,547
Fees and commissions paid	**135,104**	153,312
Depreciation - office furniture and equipment	**1,535**	6,318
Depreciation - motor vehicles	**1,477**	1,969
Depreciation - computer equipment	**7,060**	10,854
Depreciation - website development	**6,757**	563
Recoverable VAT on expenses	**(7,706)**	(6,939)
	1,272,475	1,225,938

Notes to the Financial Statements - continued
For the year ended 31 December 2017

9. INVESTMENT MANAGEMENT EXPENSES

	2017	2016
	£	£
Investment manager charges / commission	**132,763**	97,082
Property related charges	**39,679**	35,464
Irrecoverable debt on investment property	**85,700**	-
	258,142	132,546

10. TAXATION

	2017	2016
	£	£
Current Tax:		
UK corporation tax	**80,000**	70,000
UK corporation tax re prior years	**5,674**	(21,531)
Corporation tax charge	**85,674**	48,469

11. STAFF COSTS

	2017	2016
	£	£
Salaries and wages	**343,188**	288,011
Social security costs	**32,973**	26,436
Pension costs	**56,657**	45,366
	432,818	359,813

	2017	2016
Average number of employees:		
Executive	**2**	2
Administration	**9**	8
	11	10

Notes to the Financial Statements - continued
For the year ended 31 December 2017

12. COMMITTEE OF MANAGEMENT EMOLUMENTS

	2017	2016
	£	£
Remuneration and attendance fees	**218,250**	192,843
Society pension contributions to defined contribution schemes	**43,838**	36,875
Expenses	**3,587**	3,950
Total emoluments	**265,675**	233,668
Chairman	**9,705**	9,632
Highest paid member:		
Salary	**110,000**	97,500
Pension contributions	**39,588**	34,750

Committee of Management members receive expenses for travel to and from Committee meetings at the head office and for attending external meetings on Society business.

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

	2017	2016
	No.	No.
£0 - £15,000	**7**	7
£15,001 - £60,000	**1**	1
£60,001 - £110,000	**1**	1

13. UNREALISED GAINS / (LOSSES) ON INVESTMENTS

	2017	2016
	£	£
Net unrealised (losses) on investment properties	**(604,856)**	(43,204)
Net unrealised gain on revaluation of fixed assets	**-**	30,000
Net unrealised loss in UK Real Estate Fund	**(16,108)**	-
Net unrealised gains / (losses) on listed investments		
-With Profits	**2,962,107**	1,556,809
-Unit Linked	**4,331,419**	4,605,846
	6,672,562	6,149,451

Notes to the Financial Statements - continued
For the year ended 31 December 2017

14. INVESTMENTS

	Note	2017 £	2016 £
Summary			
Measured at fair value			
Land and buildings	(a)	**38,842,270**	33,204,445
Measured at cost			
Mortgages on land and buildings	(b)	**971,250**	1,004,583
		39,813,520	34,209,028
Measured at fair value			
Listed & OEIC Investments (excluding CTF)	(c)	**48,447,806**	31,799,859
Measured at cost			
Bank and money market deposits		**2,451,870**	2,094,570
		90,713,196	68,103,457
Measured at fair value			
Unit linked assets - CTF	(c)	**42,387,596**	37,211,590
		133,100,792	105,315,047

(a) Land and buildings

	Investment properties £
Cost or valuation	
Balance as at 1 January 2017	**33,204,445**
Additions	**6,567,681**
Disposals	**(325,000)**
Revaluation in year	**(604,856)**
Balance as at 31 December 2017	**38,842,270**

The freehold and leasehold properties were revalued by Mr Robin Curtis MRICS, Director at Brownill Vickers Limited. Mr Robin Curtis MRICS is a fully qualified Chartered Surveyor and an RICS Registered Valuer. A formal valuation took place in December 2016 on an open market basis. This was updated by a desk-top valuation in December 2017 and the property valuations have been adjusted accordingly.

(b) Mortgages on land and buildings

Commercial	**£**
Balance as at 1 January 2017	**1,004,583**
Advances during the year	**100,000**
Repaid during the year	**(133,333)**
Balance as at 31 December 2017	**971,250**

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(c) Investments at valuation

		2017 £	2016 £
British Government securities		**3,448,575**	1,738,041
Emerging markets fund		**6,203,372**	2,911,839
Other listed investments	- equities	**17,253,088**	14,532,824
	- alternative assets	**2,692,650**	2,263,449
	- fixed interest	**16,863,727**	10,353,706
UK Real Estate fund		**1,986,394**	-
		48,447,806	31,799,859
Child Trust Fund investments		**42,387,596**	37,211,590
Balances as at 31 December		**90,835,402**	69,011,449

Cost of investments

		2017 £	2016 £
British Government securities		**3,429,729**	1,664,966
Emerging markets fund		**5,000,000**	3,000,000
Other listed investments	- equities	**14,445,751**	13,320,765
	- alternative assets	**2,512,770**	2,095,855
	- fixed interest	**16,609,897**	10,121,463
UK Real Estate fund		**2,002,502**	-
Unit linked investments		**22,433,328**	22,133,328
		66,433,977	52,336,377

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

	Valuation as at 01.01.17 £	Purchases £	Sales £	Realised Gains / (Losses) £	Unrealised Gains / (Losses) £	Valuation as at 31.12.17 £
British Gov't	1,738,041	2,409,742	(681,365)	1,106	(18,949)	3,448,575
Emerging mkts	2,911,839	2,000,000	-	-	1,291,533	6,203,372
Equities	14,532,824	4,594,039	(3,560,188)	72,517	1,613,896	17,253,088
Alternative	2,263,449	1,064,573	(711,626)	32,747	43,507	2,692,650
Fixed interest	10,353,706	8,922,273	(2,510,526)	66,154	32,120	16,863,727
UK RE fund	-	2,002,502	-	-	(16,108)	1,986,394
	31,799,859	**20,993,129**	**(7,463,705)**	**172,524**	**2,945,999**	**48,447,806**
Unit linked	37,211,590	300,000	-	-	4,876,006*	42,387,596
	69,011,449	**21,293,129**	**(7,463,705)**	**172,524**	**7,822,005**	**90,835,402**

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

Notes to the Financial Statements - continued
For the year ended 31 December 2017

15. TANGIBLE FIXED ASSETS

	Freehold property £	Office furniture & equipment £	Motor vehicles £	Computer equipment £	Website dev. £	Total £
Balance as at 1 January 2017	**275,000**	**116,753**	**10,500**	**125,204**	**20,475**	**547,932**
Additions	**-**	**2,766**	**-**	**6,563**	**-**	**9,329**
Disposals	**-**	**(37,655)**	**-**	**(35,768)**	**-**	**(73,423)**
Balance as at 31 December 2017	**275,000**	**81,864**	**10,500**	**95,999**	**20,475**	**483,838**
Depreciation						
Balance as at 1 January 2017	**-**	**88,972**	**4,594**	**113,697**	**563**	**207,826**
Disposals	**-**	**(37,655)**	**-**	**(35,768)**	**-**	**(73,423)**
Charge for the year	**-**	**1,535**	**1,477**	**7,053**	**6,757**	**16,822**
Balance as at 31 December 2017	**-**	**52,852**	**6,071**	**84,982**	**7,320**	**151,225**
Net book value						
As at 31 December 2017	**275,000**	**29,012**	**4,429**	**11,017**	**13,155**	**332,613**
As at 31 December 2016	275,000	27,781	5,906	11,507	19,912	340,106

The freehold property has been revalued in accordance with the details in Note 14(a).

Notes to the Financial Statements - continued
For the year ended 31 December 2017

16. CAPITAL COMMITMENTS

At 31 December the Society had capital commitments as follows:

	2017	2016
	£	£
Contracted for, but not provided for in the financial statements	**-**	3,240,000

17. (a) LONG-TERM BUSINESS PROVISION – WITH PROFITS & OTHER

	With Profits	**Other**	**2017 Total**	2016 Total
	£	**£**	**£**	£
At 1 January	63,196,736	(407,849)	**62,788,887**	46,624,652
Change in long term business provision	18,667,009	(492,428)	**18,174,581**	16,164,235
At 31 December	**81,863,745**	**(900,277)**	**80,963,468**	62,788,887

(b) LONG-TERM BUSINESS PROVISION – UNIT LINKED

	2017 Total	2016 Total
	£	£
At 1 January	**34,489,810**	29,876,835
Earned premiums	**475,867**	437,544
Withdrawals / transfers to other providers	**(116,056)**	(109,672)
Change in long term business provision	**3,993,263**	4,285,103
At 31 December	**38,842,884**	34,489,810

Notes to the Financial Statements - continued
For the year ended 31 December 2017

(c) TOTAL CHANGE IN LONG-TERM BUSINESS PROVISION

	2017 £	2016 £
	22,167,844	20,449,338

18. FUND FOR FUTURE APPROPRIATIONS

	2017 £	2016 £
At 1 January	**15,640,407**	13,362,887
Surplus / (deficit) for the year	**1,940,442**	2,277,520
At 31 December	**17,580,849**	15,640,407

19. ACCRUALS AND DEFERRED INCOME

	2017 £	2016 £
Deferred rental income	**402,401**	453,241
Administrative expenses	**222,452**	185,648
Lapsed / matured policies	**104,131**	83,681
Rent deposits held on account	**24,450**	24,450
Capital costs	**-**	17,574
Sundry accruals	**290**	429
At 31 December	**753,724**	765,023

20. ACTUARIAL VALUATION AND TECHNICAL PROVISION

An Actuarial Report on the assets and liabilities of the Society was last prepared as at 31 December 2017 and a copy of this Report may be inspected at the Registered Office of the Society.

21. RELATED PARTY TRANSACTIONS

The Society's directors and Committee members are also members of the Society and pay monthly or annual premiums, all such transactions are conducted at arm's length.

Independent Auditors' Report to the Members of Sheffield Mutual Friendly Society For the year ended 31 December 2017

Opinion on the financial statements of Sheffield Mutual Friendly Society

We have audited the financial statements of Sheffield Mutual Friendly Society for the year ended 31 December 2017, 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.

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 auditor's 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.

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2017 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 Auditor's 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Committee of Management's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Committee of Management have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditors' Report to the Members of Sheffield Mutual Friendly Society - continued For the year ended 31 December 2017

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.

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- the integrity of the input data and application of suitable methodology, modelling processes and assumptions in the calculation of the Society's long term technical provision liabilities;

- revenue recognition, including the timing, completeness and accounting of premium income; and

- the risk of management override of internal controls. International Standards on Auditing (UK and Ireland) state that this risk must always be treated as significant

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 £310,000 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 90% of planning materiality, namely £279,000.

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.

An overview of the scope of our audit

Our audit scope focused on the principal activities of the Society which are undertaken from one location. The audit team commenced an interim audit before the Society's year end in order to undertake a significant proportion of the planned transactional testing.

Independent Auditors' Report to the Members of Sheffield Mutual Friendly Society - continued For the year ended 31 December 2017

An overview of the scope of our audit - continued

This was followed up shortly after the year end with a further audit site visit, once our planned procedures had been updated for year-end figures.

We scoped our responses to the significant risks identified above in the following ways:

we engaged the services of a suitably qualified and experienced 'Reviewing Actuary' to review and challenge the methodology, assumptions and calculations of the Actuarial Function Holder's long-term business provision liabilities. We also tested the integrity of the actuarial data extracted from the Society's policy data.

we carried out substantive testing on the Society's premium income relating to existing policies, new policies written in the year and surrendered policies, as well as analytical and cut-off procedures to ensure revenue recognition policies complied with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice); and

we carried out analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override of control.

Other Information

The Committee of Management are responsible for the other information. The other information comprises the information included in the Strategic Report and Committee Report [together the "Annual report"], other than the financial statements and our auditor's 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.

Opinion on other matters prescribed by the Friendly Societies Act 1992

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

Matters on which we are required to report by exception

Friendly Societies Act 1992:

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.

Independent Auditors' Report to the Members of Sheffield Mutual Friendly Society - continued For the year ended 31 December 2017

Matters on which we are required to report by exception – continued

- **Corporate governance statement:**
  In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the provisions of the UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

Responsibilities of the Committee of Management

As explained more fully in the Committee of Management's responsibilities statement, the Committee of Management are 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 Committee of Management 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 Committee of Management are 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 Committee of Management either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

We gained an understanding of the legal and regulatory framework applicable to the Society, and considered the risk of acts by the Society which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. 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 Regulation Authority's regulations, the Solvency II regulations and the UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, 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 register of complaints and negative comments.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

Independent Auditors' Report to the Members of Sheffield Mutual Friendly Society - continued For the year ended 31 December 2017

Auditor's responsibilities for the audit of the financial statements - continued

We also addressed the risk of management override of internal controls by testing journals and other transactions using data analytical auditing techniques and evaluated whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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/auditscopeukprivate. This forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Committee of Management on 24 August 2017. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years.

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.

BHP LLP
Statutory Auditors
2 Rutland Park
Sheffield
S10 2PD

Actuary Statement
In accordance with Section 77 of the Friendly Societies Act 1992
For the year ended 31 December 2017

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 Actuaries and Consultants ("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 Actuaries and Consultants ("OAC") for professional services, which amounted to £173,775 in 2017 (2016: £158,575).

NOTES

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