

Board's Report to With-Profits Policyholders for the year 2023

1. Introduction

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

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

This report covers the financial year 1 January 2023 to 31 December 2023. Version 10 of the PPFM applied from 18 March 2022 until 24 March 2023 when Version 11 was approved. Version 11 applied for the remainder of 2023.

2. Compliance with the PPFM

The Board of Directors (the "Board") confirms that it has complied with its obligations relating to the PPFM throughout 2023. In particular, it confirms that:

- (a) the Board has exercised any discretion in the conduct of the Society's with-profits business in accordance with the PPFM, and
- (b) any competing or conflicting rights, interests or expectations of the Society's policyholders have been addressed through the application of the PPFM.

In making this declaration of compliance the Board has taken into account advice from the Society's With-Profits Actuary ("WPA") on compliance with the PPFM and discretion exercised throughout the year. A statement from her is annexed to this report.

The Board has also received advice and reports from the Society's With-Profits Advisory Arrangement ("WPAA") on compliance with the PPFM throughout the period. The WPAA may also make a separate statement to with-profits policyholders in addition to this report. The WPAA has reviewed this report and has concluded that it is not necessary to provide a separate statement to policyholders.

3. Governance

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

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

The WPA throughout 2023 was Cara Spinks of OAC Limited. The WPA advises the Board on the key aspects of the discretion to be exercised in respect of the Society's with-profit business. All of the recommendations made by the WPA are reviewed by the WPAA who have provided comments on compliance with the PPFM and the fair treatment of with-profits policyholders throughout 2023.

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

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

(a) Amounts Payable and Bonus Rates

The Society aims to pay 100% of a policy's asset share on claim. However, asset shares can vary and the effect of smoothing from year to year means that, on maturity, the Society aims to pay an amount that is in the range 80% to 120% of asset share. During 2023, 96% of maturity payouts were between 80% to 120% of asset share and the average payout ratio of all policies maturing was 103%. The majority of maturing policies falling outside asset share had payout ratios that were above the target range.

On surrender, the Society aims to pay an amount that is within the range 75% to 125% of asset share (based on specimen policy calculations). During 2023 93% of surrender values were within the target range of 75% to 125%.

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

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

The methodologies used to calculate amounts payable and bonus rates have been consistent with the PPFM during 2023.

(b) Bonus Policy and Smoothing

The Society's normal practice is to review annual bonus rates on all business once a year and, at the same time, to consider whether a final bonus or MVR should be declared on any contracts. The normal full review took place in November 2022 and this set the provisional bonus rates for the year ended 31 December 2022 and interim rates for 2023.

At the Board meeting held in March 2023, the Board agreed to declare the November recommendations, but also agreed to an increase in ISA and JISA rates by 1%, effective for March. In light of the upwards shift in long term interest rate expectations, the 2023 interim annual bonus rates were increased, as follows:

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

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

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

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

The Board also agreed to implement the following terminal bonus rates:

- 5% on Investment ISA subscriptions in the 2009/10 tax years through to 2013/14 tax years
- 5% on Junior ISA subscriptions which have been in force for 5 years or more
- 5% on bonds paid in up to and including 2013
- 2% on maturing regular premium endowments

After carrying out a half year valuation, on 29 September 2023 the Society increased the interim rates across all bonds by 0.25%, effective for the whole year.

The normal annual bonus review was carried out by the WPA in November 2023, which made recommendations for the declared annual bonus rates for 2023 and interim rates for 2024. Broadly the recommendations were to declare the 2023 interim annual bonus rates and to maintain the same rates for the 2024 interim rates.

At the Board meeting held in March 2024 the Board declared the 2023 annual bonus rates and agreed to maintain the 2024 interim annual bonus rates, in line with the recommendation made in November 2023, as follows:

Contract	Interim Rate for 2023	Declared Rate for 2023	Interim Rate for 2024
Investment Bond	3.25%	3.25%	3.25%
Income Bond	3.50%	3.50%	3.50%
Tax Exempt Plan (Type 23)	1.75%	1.75%	1.75%
Tax Exempt Plan (Type 43)	2.00%	2.00%	2.00%
Tax Exempt Plan WL (Type 24)	1.75%	1.75%	1.75%
Regular Savings Plan (Type 27)	1.50%	1.50%	1.50%
Regular Savings Plan (Type 47)	1.75%	1.75%	1.75%
Pension Bond	3.75%	3.75%	3.75%
Staff Pension Scheme	5.25%	5.25%	5.25%
Investment ISA	5.25%	5.25%	5.25%
Investment JISA	5.50%	5.50%	5.50%

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

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

(c) Investment Strategy

The investment strategy of the fund and asset mix according to class of business is reviewed each year and this is reflected in the Society's Investment Policy. The Finance and Investments Committee reviews detailed reports of the assets held by the fund each month and uses this information to monitor performance and compliance with the investment mandates of the fund. Further to a review in 2022 the target ranges for the asset mix were amended in January 2023, without materially impacting the overall investment strategy. Investments have been managed according to the Society's Investment Policy throughout 2023 and further details on transactions and asset mix can be found in the 2023 Report & Accounts.

(d) Charges and Expenses

The Society allocates expenses to policy asset shares according to the amounts assumed in the premium tables, with the balance of expenses being met by emerging surplus or free reserves. From 2013 the Board decided that a proportion of the surplus emerging from the expense charges arising from the Child Trust Fund ("CTF") would be used to cover the Society's renewal costs in excess of the allowance in the premium tables. This practice continued for 2023 and is expected to be maintained on an annual basis, taking into account the run-off of the now maturing CTF policies. The premium table expenses, which are also set out in the product key information documents, are incorporated in the specimen asset share calculations. Fund management charges are set against investment income. The Society's allocation of expenses in 2023 is consistent with the PPFM.

It has been the Society's practice to allocate roughly a third of the available expense loading on CTF funds to the calculation of asset share investment returns in order to support and enhance the bonus declaration. This has been the practice from 2013 to date, which is expected to be maintained in future years, taking into account the run-off of the now maturing CTF policies. The additional return has increased the investment return credited to asset shares by 0.10% to 0.33% each year.

(e) Exposure to Business Risk

The Society's risk management process is set out in the 2023 Report and Accounts. As a Solvency II insurer the Society completes an Own Risk and Solvency Assessment ("ORSA") in accordance with regulatory requirements. The purpose of the ORSA is to enable the Board to assess, monitor and manage the Society's risks relative to the medium-term business plan and to understand how much current and future capital is necessary to cover those risks having considered other mitigating factors. The Society has no exposure to business risk outside the normal risks associated with the ongoing transaction of insurance business.

(f) Management of Mutual Capital

The Society maintains a level of free assets which enables it to invest in a wide range of investments and to fund the writing of new business. A target range is set for the free asset and solvency ratios and if the free assets fall outside these ranges then remedial action would be taken. The Society can confirm that the management of the mutual capital has taken place in accordance with the requirements of the PPFM and that the free asset and solvency ratios were within the target ranges throughout 2023.

(g) Volume of New Business

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

(h) Communication with Policyholders

The Society aims to meet the information needs of policyholders by ensuring that communications are clear, fair and not misleading, and that they have been consistent with the PPFM. Under Consumer Duty, the Society also aims to deliver good outcomes to its members. Bonus statements in relation to 2023 were sent to all with-profits policyholders in March/April 2024 and a Member Newsletter was sent along with the Notice of AGM in May 2024. The Society's SFCR and Report and Accounts are available on the Society's website. Details of the Society's investment strategy and asset mix were outlined in the Summary Report & Accounts and Newsletter.

Jamie Bellamy
Chief Executive
for and on behalf of the Board of Directors

24 May 2024

With-Profits Actuary's report to with-profits policyholders for the year 2023

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

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

I can confirm that, over 2023, I have had access to the Chief Executive and Board of the Society to ensure that I have been informed and consulted on all important matters relating to the transaction of with-profits business. In addition, in preparing this report, I have taken account of the rules of the Financial Conduct Authority and the guidance requirements of the Actuarial Profession and the Financial Reporting Council.

In my opinion, the annual report by the Society to its with-profits policyholders, and the discretion exercised by the Society in respect of 2023, has taken the interests of its with-profits policyholders into account in a reasonable and proportionate manner.

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

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



Cara Spinks FIA
With-Profits Actuary to Sheffield Mutual Friendly Society

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