Sheffield Mutual
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For you, your family, your future

Financial Statements

Report & Accounts

2016

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Committee of Management	Janet Barber (Chairman) Jamie Bellamy (Finance Director) Stephen Birch (Vice Chairman) Anthony Burdin (Chief Executive) Thomas Burton Stephen Hindmarsh Sheila Johnson Melvyn Lunn Neil Spawforth
Trustees	Thomas Burton Melvyn Lunn
Chief Executive/Secretary	Anthony Burdin
External Auditors	BHP, Chartered Accountants 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 2016

CHAIRMAN'S REPORT

In my second year as Chair, I am delighted to report another year of growth and overall strong performance. We have continued to see encouraging growth in new policies and members. We have also been successful in generating levels of premium income in excess of our business plan, whilst maintaining tight control of costs. Our policy returns remained market leading.

There were a number of key strategic priorities to complete in 2016. The regulatory changes under Solvency II, which saw the introduction of new governance and capital rules for insurers and friendly societies, came into effect on 1st January 2016. The introduction of the Senior Insurance Managers Regime, which introduced changes to the Society's governance arrangements. This has allocated responsibility and accountability to those Committee members who became key function holders. This came into full effect from 07 March 2016. I can report the successful implementation and transition into the business of both these new regulatory requirements. In addition the Committee instructed an independent review of the society's investment strategy and governance arrangements. I can confirm this review was completed within timescales.

Our achievements in 2016 are credit 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.

In June 2017, following the Annual General Meeting, Tom Burton, Trustee, will be retiring from the Committee. Tom joined the Committee in 1999, and has served as Chairman and Trustee. I would like to thank Tom on behalf of the Committee, and the team of staff, for his enthusiasm, dedication and loyal service. His skills and knowledge have been invaluable, and have contributed to the success of the society. We wish him well in his retirement.

There was economic uncertainty during 2016 following the EU referendum "Brexit" vote, and more recently the result of the American Presidential election. We saw the Bank of England base rate falling to a low of 0.25% and we continued to experience market volatility throughout the year. However by 31 December 2016, markets began to show encouraging signs of recovery, with the FTSE 100 index ending the year 14% higher than 2015.

We do not expect the external market conditions to get any easier over the coming year, with markets remaining cautiously optimistic for 2017. We will remain vigilant to economic downturns, and we are well placed to meet the challenge. We are committed to build on the success we have achieved, and will continue to deliver excellent products, and serve both new and existing members. It is our staff and members who make us who we are.

Jan Barber

Jan Barber
Chairman

Strategic Report
for the year ended 31 December 2016

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

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 almost two thirds of our new business direct from members of the public through advertising campaigns and recommendations. Over a third of new policies are applied for via our website (www.sheffieldmutual.com) and we will continue to invest in the Society's online services.

The future growth in premium income will be driven by the Society's with-profits Investment ISA, which is providing investors with an attractive alternative to Cash ISAs in the current low interest rate environment. Intermediaries remain a significant part of our distribution mix and we will retain a focus on developing 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 2016 we donated more than £10,000 to various charities and good causes and we have made a commitment to maintain this level of support in 2017.

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 2016

BUSINESS ENVIRONMENT

Investments

Stock markets around the world fell sharply in February 2016, as concerns over economic growth prospects in China and other emerging markets continued to affect commodity stocks. However, the second half of 2016 was largely good for equity investors, with the markets responding positively to the UK's EU referendum 'Brexit' vote (largely due to the fall in Sterling) and then the unexpected US presidential election result (with the promise of fiscal stimulus and economic growth).

The FTSE 100 Index broke new ground, rising to 7142.83 by 31 December 2016 – 14% higher than 12 months earlier. However, there are several potential risks for investors in 2017, including the UK's Brexit negotiations, European elections (in Holland, France and Germany) and the unpredictability of the new American President. The Society maintains a diversified portfolio, which is well positioned to deal with the market risks and volatility, whilst also benefiting from any future gains.

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 £2 million through Investec in 2016 and after adjusting for the new money added during the year the portfolio, now totalling £29.2 million, produced a total annual return (including income) of 10.61%. The net amount invested was less than originally planned, as the Committee took the prudent step of divesting £3 million from equities in order to de-risk the portfolio ahead of the EU referendum. The divestment was used to fund additional property purchases (see below), which the Committee considered to be a more stable asset during a period of heightened volatility.

Mindful of the Society's growing asset base, the Committee commissioned an independent review of the Society's investment strategy and governance arrangements in 2016. The resulting report was very supportive of the Society's overall strategy and governance arrangements, but suggested that a limited exposure to emerging markets would be a sensible additional diversification. After researching the various alternatives, the Committee approved a £3 million initial investment in the Fidelity Emerging Markets Fund.

The Society's commercial properties continued to generate consistent rental yields and the Committee expanded the portfolio by investing circa £11 million in seven properties in 2016. This included a retail outlet in Colne, Lancashire, tenanted by TK Maxx and a trade outlet at Bishop Auckland, County Durham, tenanted by MKM Building Supplies. All seven new properties have the benefit of long-term commercial leases backed by strong covenants. The Society now owns 43 geographically diversified commercial properties with a total value of circa £33.2 million.

The positive stock market performance resulted in an unrealised gain of £6.15 million for the year. The Society's available capital increased from £13.363 million to £15.038 million with a solvency ratio of 136%; thereby maintaining a strong financial base. The Society's investment and other income was £3.85 million and after taking account of the unrealised gains the overall return on the non-CTF assets for the year was 7.22%.

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. Our excellent investment performance, combined with effective cost control, has enabled us to declare attractive annual bonuses on all policy types for 2016. We are also boosting pay-outs to members through the payment of final bonuses where appropriate. Our investment advisers and many other commentators are cautiously optimistic about the prospects for 2017, but are also wary about the potential banana skins. Therefore, the Committee will continue to manage the potential volatility by focusing on quality, balance and diversity when making investment decisions.

The next table shows the asset split of the Society's investment fund at the end of 2016, with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

	2016	**2015**	**2014**
	%	%	%
Property	48.76	41.07	39.08
Mortgages on land and buildings	1.48	4.11	6.23
Listed investments: - equities	25.61	26.59	27.68
- fixed interest	17.75	20.41	21.08
- alternative assets	3.32	4.45	2.31
Cash (excluding current account funds)	3.08	3.37	3.62
	100.00	100.00	100.00

Strategic Report - Continued
for the year ended 31 December 2016

Investments - continued

The Committee increased the size of the commercial property portfolio, partly by divesting of equities as explained earlier and also using funds received from a large commercial mortgage redemption. The percentage held in equities was maintained primarily due to the new emerging markets investment. The proportion held in fixed interest was reduced due to falling yields, but we improved the overall credit quality.

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 2016

CHIEF EXECUTIVE'S BUSINESS REVIEW

Introduction

I am delighted to report another very strong business performance for Sheffield Mutual in 2016, which saw our assets break through the £100 million milestone. The highlights of our performance are as follows:

- Total assets increased by 26% to a record £113.8 million
- Traditional premium income increased by 34% to £17.5 million
- New policies increased by 10% to 1,915
- Traditional membership increased by 7% to 10,678
- Including the Child Trust Fund we now have 77,266 policies and accounts

Members and Policies

The Society achieved strong growth in premium income and new policies in 2016, resulting in 1,130 new members and an increase of around 10% in the total number of traditional policies held. The growth was again driven by the success of our Investment ISA, which provides savers with a potentially higher yielding alternative to Cash ISAs, but with less risk than a conventional Stocks & Shares ISA.

Our website, which received a major upgrade in 2016, accounted for over a third of new business, 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)
31.12.14	9,189	11,281
31.12.15	9,955	12,416
31.12.16	10,678	13,654

Year Ending	Number of New Members (Excl CTF)	Number of New Policies (Excl CTF)
31.12.14	1,079	1,555
31.12.15	1,218	1,736
31.12.16	1,130	1,915

Year Ending	Number of New CTF Accounts	Number of CTF Accounts
31.12.14	23	63,805
31.12.15	9	63,731
31.12.16	9	63,612

Premium Income and Assets

During 2016 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, temporary limits were introduced on single premium investments from non-members during the second half of the year.

The Society's traditional premium income increased by 34% to £17.5 million, with subscriptions and external transfers to the Investment ISA generating circa £11 million of the total. This included ISA top-ups of around £4.5 million from existing members.

Regular premiums, mainly to the Tax Exempt Savings Plan, exceeded £2.85 million and, therefore, accounted for over 16% of the total. We remained top of the performance league tables for with-profits regular premium pure endowments, last published in April 2016.

The Society's unit-linked Stakeholder Child Trust Fund attracted premium income of £0.44 million during the year, made up of transfers from other providers and additional subscriptions to existing accounts.

Strategic Report - Continued
for the year ended 31 December 2016

Premium Income and Assets - continued

The growth in our business resulted in a 26% increase in total assets at the end of the year to a record £113.8 million. Excluding the CTF, the Society's assets increased by 31% to £76.6 million.

Year Ending	Premium Income (Excl CTF) £'000	Assets (Excl CTF) £'m
31.12.14	9,687	46.4
31.12.15	13,050	58.6
31.12.16	17,541	76.6

Year Ending	CTF Premium Income £'000	Total Assets (Incl CTF) £'m
31.12.14	516	77.5
31.12.15	483	90.4
31.12.16	438	113.8

Policy Returns and Bonuses

The Committee declared annual policy bonuses to the value of around £1.5 million in 2016 and all with-profits bond, ISA and endowment policies had their interim bonus rates declared in full. The Committee also maintained final bonus rates on bonds encashed after five years, increased the final bonus rates on maturing regular premium endowments and extended the qualifying final bonus years for the Investment ISA.

Summary

I am very pleased to conclude that the Society has performed well in all areas of our business in 2016 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 make further progress in 2017 - the Society's 125th anniversary year!

A Burdin

Tony Burdin
Chief Executive

Committee's Report
for the year ended 31 December 2016

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
Mr A R Burdin	Committee/Chief Executive
Mr T Burton	Committee/Trustee
Mr S Hindmarsh	Committee
Mrs S Johnson	Committee
Mr M Lunn	Committee/Trustee
Mr N Spawforth	Committee

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.

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 2016.

Complaints by Members

The Society has a documented complaints procedure and aims to treat its members fairly. There were no reportable complaints in 2016.

Committee's Report - Continued
for the year ended 31 December 2016

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.

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 to international standards, 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, Chartered Accountants, have acted in this capacity since 2004. They provide no significant non-audit services which would affect their objectivity and independence. In order to comply with the new audit directive, the external audit service will be re-tendered in 2017 and at least every 10 years thereafter.

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 2016

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 2017.

Corporate Governance

In 2016 the Committee comprised of the non-executive Chairman, two Trustees, four other non-executive members and two executive members (Chief Executive and Finance Director). Biographies for each of these are shown on pages 14-15 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 2016 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 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 2016-17, 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.
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. The Society has no formal diversity policy for Committee appointments, preferring instead to appoint the best candidate against the criteria agreed in relation to the required skills and experience.
4. 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.
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 is 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.

Committee's Report - Continued
for the year ended 31 December 2016

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	10	10	12	12
M Lunn	10	10	12	11
J Bellamy	10	10	12	12
S Birch	10	8	4	3
A Burdin	10	10	12	12
S Hindmarsh	10	10	5	5
S Johnson	10	9	4	3
N Spawforth	10	10	5	5

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 Chief Executive's performance is reviewed by the Committee and the Finance Director's by both the Committee and the Chief Executive.

The Committee has continued to develop its knowledge by receiving specialist presentations from the Actuary, Internal Auditors, Stockbroker and various independent consultants. 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 no formal diversity policy for Committee appointments, preferring instead to appoint the best candidate against the criteria agreed in relation to the required skills and experience. However, the Committee is mindful of gender diversity and it should be noted that two of the seven non-executive Committee members are female.

There were no new appointments to the Committee in 2016, nor any changes to the Chairman, Vice-Chairman or Trustees.

There is one Committee member offering himself for re-election at the Annual General Meeting (AGM) and the Chairman confirms that, following formal performance evaluation, the individual's performance remains effective and that he continues to demonstrate commitment and independent judgement to the role. She recommends therefore that he should be re-elected.

Mr T Burton will retire from the Committee and as a Trustee after the AGM, having reached 70 years of age. The Committee would like to thank Mr Burton for his long service and significant contribution to the growth and development of the Society - particularly during his seven successful years as Chairman. The Committee has nominated Mr N Spawforth to replace Mr Burton as a Trustee and Mr Spawforth will be offering himself for election at the AGM. The Chairman recommends that he should be elected.

Following Mr Burton's retirement the Committee will revert to its preferred composition of eight. Any future non-executive vacancies would normally be advertised in the Society's annual Newsletter.

Committee's Report - Continued
for the year ended 31 December 2016

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.

During 2016 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.

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 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 £	2016 Total £	2015 Total £
Chairman					
J Barber	9,632	-	-	9,632	3,744
Trustees					
T Burton	10,077	-	-	10,077	4,737
M Lunn	8,808	-	-	8,808	3,433
Committee					
S Birch	6,607	-	-	6,607	3,674
S Hindmarsh	6,757	-	-	6,757	3,230
S Johnson	6,309	-	-	6,309	3,566
N Spawforth	6,503	-	-	6,503	2,941
Chief Executive					
A Burdin	97,500	-	34,750	132,250	109,018
Finance Director					
J Bellamy	44,600	-	2,125	46,725	8,479

Committee's Report - Continued
for the year ended 31 December 2016

Members of the Committee of Management

Jan Barber, Age 61 - 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 Birch, MIET, Age 62 - Vice Chairman
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. He is currently Vice Chairman. Stephen's hobbies include theatre, DIY, gardening and historic vehicle preservation.

Thomas Burton, Grad RIC, FPC1, Age 70 - Trustee
Tom joined the Committee in 1999 and served as Chairman from 2005 to 2012, then becoming a Trustee in 2013. He retired from full-time employment 12 years ago after working in the nuclear fuels industry for 39 years as a team leader. One of his specialities then was dealing with compliance issues, which has proved to be very useful when serving on the Committee. He lives in Lytham St Anne's with his wife, Marian, and his hobbies include gardening, photography and home computing. Tom retires from the Committee after the 2017 AGM.

Melvyn Lunn, FCA MCMI AIC CIHM, Age 68 - 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). He is married to Anne and has two sons.

Jamie Bellamy, ACCA, PgD, LLB (Hons), Age 31 - 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 four 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 baby son in Penistone, South Yorkshire.

Anthony Robert Burdin, Age 55 - Chief Executive
Tony joined the Society in March 2009 as Chief Executive and throughout the past eight 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 37 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. He is married and lives in North Yorkshire.

Stephen Hindmarsh, Age 64
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.

Committee's Report - Continued
for the year ended 31 December 2016

Members of the Committee of Management - continued

Sheila Johnson, FCIB, Age 68

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.

Neil Spawforth, MRICS, Age 41

Neil has over 15 years experience as a Chartered Surveyor and his knowledge of commercial property is of great value to the Society. In addition to being a member of Sheffield Mutual's Committee of Management, where he served as Vice Chairman from 2012 to 2015, Neil is 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 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 2016

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 2016 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

Society Chairman 16 March 2017

Income and Expenditure Account
for the year ended 31 December 2016

	Note	2016 £	2015 £
Technical Account - long term business			
INCOME			
Earned premiums	5	**17,541,235**	13,072,936
Investment and other income	6	**3,847,289**	3,406,054
Total Income		**21,388,524**	16,478,990
EXPENDITURE			
Claims incurred	7	**(3,404,164)**	(2,324,209)
Change in long term business provision	17	**(20,449,338)**	(10,701,566)
Net operating expenses			
Administrative expenses	8	**(1,225,938)**	(1,031,647)
Investment expenses and charges			
Investment management expenses	9	**(132,546)**	(108,025)
Net unrealised gains / (losses) on investments	13	**6,149,451**	(492,574)
Taxation attributable to long term business	10	**(48,469)**	(64,654)
Transfer from / (to) fund for future appropriations	18	**(2,277,520)**	(1,756,315)
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 2016

	Note	2016	2015
ASSETS		£	£
Investments			
Land and buildings	14	33,204,445	22,511,830
Other financial investments	14	34,899,012	32,307,156
		68,103,457	54,818,986
Assets held to cover linked liabilities	14	37,211,590	31,802,943
Other assets			
Tangible fixed assets	15	340,106	291,013
Cash at bank and in hand		7,274,129	2,964,305
Prepayments and accrued income			
Accrued interest and rent		221,990	146,310
Other prepayments and accrued income		662,718	417,075
Total Assets		113,813,990	90,440,632
LIABILITIES			
Fund for future appropriations	18	(15,640,407)	(13,362,887)
Technical provisions			
Long term business provision	17	(62,788,887)	(46,624,652)
Technical provision for linked liabilities	17	(34,489,810)	(29,876,835)
Creditors			
Other creditors including taxation and social security		(129,863)	(119,726)
Accruals and deferred income	19	(765,023)	(456,532)
Total Liabilities		(113,813,990)	(90,440,632)

The financial statements were approved by the Committee of Management on 16 March 2017.

J Barber
Chairman

J Bellamy
Finance Director

A Burdin
Chief Executive

Notes to the Financial Statements
for the year ended 31 December 2016

1 ACCOUNTING POLICIES

(a) Basis of accounting

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

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

The 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 nine 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.

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 asset's 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.

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

1 ACCOUNTING POLICIES - continued

(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.

(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 have been evaluated on a Solvency II basis for the first time and the comparative figures have been restated on the same basis by way of a prior year adjustment - see note 22.

(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.

Notes to the Financial Statements - Continued for the year ended 31 December 2016

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.

(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 2016

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 2016 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.

	2016 £000	2015 £000
Solvency Capital Requirement	**11,056**	7,829
Available capital resources	**15,640**	13,363
Less: property acquisition costs	**(602)**	-
Total available capital resources	**15,038**	13,363
Solvency cover	**136%**	171%

The basis for preparing the 2015 LTBP was modified for 2016 to allow for a change in assumed management actions. The allowance for management actions around future annual bonus rates was removed. In 2016 it was also assumed that management would take action around potential losses arising from movements in the expected value of margins arising on the CTF block of business.

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

	2016 £000	2015 £000
Opening fund for future appropriation	**13,363**	11,607
Transfer to fund for future appropriation from Income and Expenditure account	**2,277**	1,756
Closing fund for future appropriation	**15,640**	13,363

Set out on the following page 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.

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

3 CAPITAL STATEMENT - continued

(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 £11.056 million and is determined in accordance with capital requirements as defined by Solvency II, namely the resilience capital requirement and the long term insurance capital requirement. As at 31 December 2016 the Society's capital resources were 136% of its capital requirements.

Approximately 49% 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 18% is held in UK bonds, 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 2016.

The main assumptions used in the statutory valuation carried out as at 31 December 2016 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 plus a margin of 0.25% to allow for salary inflation above RPI
- **Lapses**
  Realistic rates based on the actual experience for each product
- **Bonuses**
  A continuation of the currently declared interim rates
- **Tax**
  20% 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 £'000
Expense allowances	10%	-554
Expense allowances	-10%	554
Change in rate of mortality (%ELT)	10%	-149
Change in rate of mortality (%ELT)	-10%	161
Change in fixed interest yields	EIOPA shock up	1,230
Change in fixed interest yields	EIOPA shock down	-852
Fall in fixed interest asset value	-10%	-724
Fall in equity values	-10%	-1,747
Fall in property values	-10%	-1,788

Notes to the Financial Statements - Continued for the year ended 31 December 2016

3 CAPITAL STATEMENT - continued

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 44% of its assets in properties and a 10% fall in values leads to a reduction in available capital of £1.79 million.

A change in mortality rates does not have any material effect on the available capital. This is because the two largest classes of contract are pure endowments (where the premiums are returned with interest on death), and single premium bonds where the valuation method generally holds the surrender value as the reserve.

The EIOPA shock to increase the yields and 10% reduction in expenses increase the available capital.

(c) Analysis of change in capital resources

	2016 £000	2015 £000
Total available capital resources at 1 January	**13,363**	11,607
Premiums less claims and expenses	**12,911**	9,717
Investment income less tax	**3,666**	3,234
Unrealised (losses) / gains on investments	**6,149**	(493)
Change in mathematical reserves	**(20,449)**	(10,702)
Total available capital resources at 31 December	**15,640**	13,363

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 2016

4 RISK MANAGEMENT - continued

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.

	2016 £000	2015 £000
Sickness and death	**1,548**	1,760
Pure endowments	**12,364**	10,980
Endowments	**572**	510
Taxable saving plans	**5,266**	4,351
Investment bond	**13,113**	9,830
ISA	**30,287**	19,111
Pension bond	**1,235**	1,190
Other	**846**	698
Total	**65,231**	48,430

(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.

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.

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

4 RISK MANAGEMENT - continued

Concentration of market risk

The following table provides details of the Society's equities by sector and region.

	United Kingdom £	Emerging Economies £	Grand Total £
Oil & Gas Producers	1,568,900	-	1,568,900
Basic Materials	522,097	-	522,097
Construction & Materials	283,000	-	283,000
Support Services	663,090	-	663,090
Consumer Goods	1,410,045	-	1,410,045
Health Care	1,702,045	-	1,702,045
Consumer Services	1,002,420	-	1,002,420
Telecommunications	546,460	-	546,460
Utilities	562,208	-	562,208
Financials	1,136,170	-	1,136,170
Life Insurance	922,725	-	922,725
Real Estate Investment Trust	543,225	-	543,225
Financial Services	366,520	-	366,520
Investment & Unit Trusts	3,423,269	-	3,423,269
Property	1,217,409	-	1,217,409
Infrastructure	926,690	-	926,690
Open Ended Investment Companies	-	2,911,839	2,911,839
Total	**16,796,273**	**2,911,839**	**19,708,112**

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.

All of the Society's debt securities are 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 2016

4 RISK MANAGEMENT - continued

Concentration of credit risk

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

	United Kingdom £	North America £	Europe £	Emerging Economies £	Grand Total £
British Government funds	1,738,041	-	-	-	1,738,041
UK fixed interest	8,401,653	-	-	-	8,401,653
Overseas fixed interest	-	437,831	1,010,611	503,611	1,952,053
Total	**10,139,694**	**437,831**	**1,010,611**	**503,611**	**12,091,747**

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.

vii. Fair value

The principal financial assets held at 31 December 2016, analysed by their fair value hierarchies were:

	Level A £000	Level B £000	Level C £000	Total £000
Equity securities	14,533	-	-	**14,533**
Emerging market securities	2,912	-	-	**2,912**
Alternative assets	2,263	-	-	**2,263**
Debt securities	12,092	-	-	**12,092**
Investment properties	-	33,204	-	**33,204**
Mortgages	1,005	-	-	**1,005**

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

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

5 EARNED PREMIUMS

	2016 £	2015 £
Single Premium Income	**14,687,089**	10,254,112
Regular Premium Income	**2,854,146**	2,818,824
	17,541,235	13,072,936

6 INVESTMENT AND OTHER INCOME

	2016 £	2015 £
Income from listed investments	**1,090,094**	1,204,713
Rental income receivable	**2,008,383**	1,425,649
Mortgage interest receivable	**125,103**	148,914
Bank interest receivable	**33,220**	23,251
Gains on the sale of listed investments	**130,688**	198,583
CTF Unit Linked management charges received	**459,801**	404,944
	3,847,289	3,406,054

7 CLAIMS INCURRED

	2016 £	2015 £
Endowments and matured policies	**1,228,225**	1,111,031
ISA withdrawals	**1,035,753**	609,210
Surrendered policies	**509,334**	338,709
Death benefits	**579,194**	237,767
Income Bond withdrawals	**46,148**	23,274
Additional benefits	**4,947**	4,218
Sickness benefits	**563**	-
	3,404,164	2,324,209

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

8 ADMINISTRATIVE EXPENSES

	2016 £	2015 £
Salaries, including national insurance	**314,447**	279,113
Pension contributions	**45,366**	28,790
Internal auditor's and compliance consultant's fees	**14,425**	15,810
Actuary's fees	**158,575**	165,204
Auditor's fees	**59,220**	39,600
Legal and professional fees	**46,869**	27,506
PRA / FCA Regulatory fees	**40,030**	37,070
Committee of Management fees and expenses	**55,583**	25,325
AGM expenses	**8,027**	7,460
Computer running costs	**51,307**	35,307
Website and software development	**14,910**	12,453
Postage	**17,958**	18,419
Printing and stationery	**16,961**	17,629
Insurance	**9,714**	6,627
Motor vehicle and travel costs	**1,635**	3,007
Subscriptions	**2,576**	1,167
Lodge expenses	**594**	357
Bank charges	**13,225**	12,151
Miscellaneous expenses	**2,328**	2,687
Charitable donations	**10,347**	20,687
Office expenses	**49,033**	46,728
Entertaining	**749**	915
Advertising and promotional costs	**116,435**	103,047
Personnel and training	**9,547**	1,845
Fees and commissions paid	**153,312**	111,501
Depreciation - office furniture and equipment	**6,318**	4,221
Depreciation - motor vehicles	**1,969**	2,625
Depreciation - computer equipment	**10,854**	9,796
Depreciation - website development	**563**	-
Recoverable VAT on expenses	**(6,939)**	(5,590)
Interest on finance leases	**-**	190
	1,225,938	1,031,647

9 INVESTMENT MANAGEMENT EXPENSES

	2016 £	2015 £
Investment manager charges	**97,082**	92,188
Property related charges	**35,464**	15,837
	132,546	108,025

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

10 TAXATION

	2016 £	2015 £
Current Tax:		
UK Corporation tax	**70,000**	60,000
UK Corporation tax re prior years	**(21,531)**	4,654
Corporation tax charge	**48,469**	64,654

11 STAFF COSTS

	2016 £	2015 £
Salaries and wages	**288,011**	255,845
Social security costs	**26,436**	23,268
Pension costs	**45,366**	28,790
	359,813	307,903
Average number of employees:		
Executive	**2**	1
Administration	**8**	8
	10	9

12 COMMITTEE OF MANAGEMENT EMOLUMENTS

	2016 £	2015 £
Remuneration and attendance fees	**192,843**	118,547
Society pension contributions to defined contribution schemes	**36,875**	19,922
Expenses	**3,950**	4,353
Total emoluments	**233,668**	142,822
Chairman	**9,632**	4,225
Highest paid member:		
Salary	**97,500**	89,500
Pension contributions	**34,750**	19,518

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:

	2016 No.	2015 No.
£0 - £15,000	**7**	8
£15,001 - £50,000	**1**	-
£50,001 - £100,000	**1**	1

Certain Committee members also received commission for introducing new business totalling £1,341 (2015: £2,860) for the year.

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

13 UNREALISED GAINS / (LOSSES) ON INVESTMENTS	2016 £	2015 £
Net unrealised gains/(losses) on investment properties	**(43,204)**	296,600
Net unrealised gain on revaluation of fixed assets	**30,000**	-
Net unrealised gains/(losses) on listed investments		
With Profits	**1,556,809**	(777,337)
Unit Linked	**4,605,846**	(11,837)
	6,149,451	(492,574)

14 INVESTMENTS	Note	2016 £	2015 £
Summary			
Measured at fair value			
Land and buildings	(a)	**33,204,445**	22,511,830
Listed investments (excluding CTF)	(c)	**31,799,859**	28,205,553
		65,004,304	50,717,383
Measured at amortised cost			
Mortgages on land and buildings	(b)	**1,004,583**	2,254,583
Measured at cost			
Bank and money market deposits		**2,094,570**	1,847,020
		68,103,457	54,818,986
Measure at fair value			
Unit linked assets - CTF	(c)	**37,211,590**	31,802,943
		105,315,047	86,621,929

(a) Land and buildings

Cost or valuation	Investment properties £
Balance as at 1 January 2016	**22,511,830**
Additions	**10,735,819**
Disposals	**-**
Revaluation in year	**(43,204)**
Balance as at 31 December 2016	**33,204,445**

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.

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

14 INVESTMENTS - continued

(b) Mortgages on land and buildings

Commercial:	£
Balance as at 1 January 2016	2,254,583
Advances during the year	-
Repaid during the year	(1,250,000)
Balance as at 31 December 2016	1,004,583

(c) Listed investments at valuation

	2016 £	2015 £
British Government securities	1,738,041	1,695,674
Emerging markets fund	2,911,839	-
Other listed investments - equities	14,532,824	14,575,592
- alternative assets	2,263,449	2,440,108
- fixed interest	10,353,706	9,494,179
	31,799,859	28,205,553
Child Trust Fund investments	37,211,590	31,802,943
Balances as at 31 December	69,011,449	60,008,496

Cost of listed investments:

	2016 £	2015 £
British Government securities	1,664,966	1,704,872
Emerging markets fund	3,000,000	-
Other listed investments	25,538,083	26,481,208
Unit linked investments	22,133,328	21,790,328
	52,336,377	49,976,408

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

	Valuation as at 01.01.16 £	Purchases £	Sales £	Realised Gains / (Losses) £	Unrealised Gains / (Losses) £	Valuation as at 31.12.16 £
British Government	1,695,674	1,585,633	(1,667,148)	47,749	76,133	1,738,041
Emerging markets fund	-	3,000,000	-	-	(88,161)	2,911,839
Equities	14,575,592	2,900,537	(3,997,991)	746	1,053,940	14,532,824
Alternative	2,440,108	150,863	(407,409)	7,646	72,241	2,263,449
Fixed interest	9,494,179	3,813,379	(3,471,055)	74,547	442,656	10,353,706
	28,205,553	11,450,412	(9,543,603)	130,688	1,556,809	31,799,859
Unit linked	31,802,943	343,000	-	-	5,065,647*	37,211,590
	60,008,496	11,793,412	(9,543,603)	130,688	6,622,456	69,011,449

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

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

15 TANGIBLE FIXED ASSETS

	Freehold property £	Office furniture & equipment £	Motor vehicles £	Computer equipment £	Website dev. £	Total £
Balance as at 1 January 2016	245,000	101,363	10,500	122,271	-	479,134
Additions	-	15,390	-	2,933	20,475	38,798
Revaluation	30,000	-	-	-	-	30,000
Disposals	-	-	-	-	-	-
Balance as at 31 December 2016	275,000	116,753	10,500	125,204	20,475	547,932
Depreciation						
Balance as at 1 January 2016	-	82,653	2,625	102,843	-	188,121
Disposals	-	-	-	-	-	-
Charge for the year	-	6,319	1,969	10,854	563	19,705
Balance as at 31 December 2016	-	88,972	4,594	113,697	563	207,826
Net book value						
As at 31 December 2016	275,000	27,781	5,906	11,507	19,912	340,106
As at 31 December 2015	245,000	18,710	7,875	19,428	-	291,013

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

16 CAPITAL COMMITMENTS

At 31 December 2016, the Society had capital commitments as follows:-

	2016 £	2015 £
Contracted for, but not provided for in the financial statements	3,240,000	1,386,000

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

	With Profits £	Other £	2016 Total £	2015 Total £
At 1 January	46,254,245	370,407	**46,624,652**	35,921,434
Change in long term business provision	16,942,491	(778,256)	**16,164,235**	10,703,218
At 31 December	**63,196,736**	**(407,849)**	**62,788,887**	46,624,652

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

17 (b) LONG-TERM BUSINESS PROVISION - UNIT LINKED

	2016 Total £	2015 Total £
At 1 January	**29,876,835**	29,491,234
Earned premiums	**437,544**	482,761
Withdrawals / transfers to other providers	**(109,672)**	(95,508)
Change in long term business provision	**4,285,103**	(1,652)
At 31 December	**34,489,810**	29,876,835

	2016 £	2015 £
(c) Total change in long-term business provision	20,449,338	10,701,566

18 FUND FOR FUTURE APPROPRIATIONS

	2016 £	2015 £
At 1 January	**13,362,887**	11,606,572
Surplus / (deficit) for the year	**2,277,520**	1,756,315
At 31 December	**15,640,407**	13,362,887

19 ACCRUALS AND DEFERRED INCOME

	2016 Total £	2015 Total £
Deferred rental income	**453,241**	181,472
Administrative expenses	**185,648**	158,785
Lapsed / matured policies	**83,681**	57,251
Rent deposits held on account	**24,450**	24,450
Capital costs	**17,574**	34,304
Sundry accruals	**429**	270
At 31 December 2016	**765,023**	456,532

20 ACTUARIAL VALUATION AND TECHNICAL PROVISION

An Actuarial Report on the assets and liabilities of the Society was last prepared as at 31 December 2016 and a copy of this Report may be inspected at the Registered Office of the Society.

Notes to the Financial Statements - Continued
for the year ended 31 December 2016

21 PRIOR YEAR ADJUSTMENT

Under FRS 103 the Society is required to account for deposits and withdrawals relating to investment contracts as movements within the fund, rather than within the Income & Expenditure Account as in previous years. As part of the adjustment, the Unit Linked annual management charges received have also now been extracted out of unrealised gains / (losses) on the Unit Linked investments and are now shown within investment and other income.

Income Bond drawdowns have also been reclassified out of premium income and into claims paid.

The comparative amounts as originally explained in the 2015 financial statements have been adjusted for the above and a summary is shown below.

	2015 £
Previously reported earned premiums	13,532,423
Removal of investment contract deposits - Child Trust Fund	(482,761)
Removal of income bond drawdowns	23,274
Adjusted earned premiums - Note 5	13,072,936
Previously reported investment income	3,001,110
Unit Linked annual management charges received	404,944
Adjusted investment income - Note 6	3,406,054
Previously reported claims incurred	2,396,443
Removal of investment contract withdrawals - Child Trust Fund	(95,508)
Addition of income bond drawdowns	23,274
Adjusted total claims incurred - Note 7	2,324,209
Previously reported unrealised gains / (losses) on investments	(87,630)
Removal of Unit Linked annual management charges received	(404,944)
Adjusted unrealised gains - Note 13	(492,574)
Previously reported change in long term business provision	11,796,130
Movement in investment contract deposits - Child Trust Fund	(482,761)
Movement in investment contract withdrawals - Child Trust Fund	95,508
Adjusted change in long term business provision - See note 22(a)	11,408,877

Notes to the Financial Statements - Continued for the year ended 31 December 2016

22 SOLVENCY II TRANSITION ADJUSTMENT

As part of the transition for the Society to the Solvency II Directive, the actuarial methodology and assumptions for calculating the Society's long term business provisions have adjusted in line with the new regulatory guidance. The Society's actuary has prepared a Solvency I and Solvency II comparison report, explaining the changes to the figures affecting the Balance Sheet and the Income and Expenditure Account, however a summary of the adjustments are explained below:

(a) Adjusted Income and Expenditure Account

Change in long-term business provision

	£
Previously reported as at 31 December 2015 (after prior year adjustment - see note 21)	11,408,877
Solvency II adjustment	(707,311)
Adjusted as at 31 December 2015 - Note 17(c)	10,701,566

Transfer from / (to) fund for future appropriations

	£
Previously reported as at 31 December 2015	(1,049,004)
Solvency II adjustment	(707,311)
Adjusted as at 31 December 2015 - Note 18	(1,756,315)

(b) Adjusted Balance Sheet

Long-term business provision - With Profits & Other	With Profits £	Other £	2015 Total £	2014 Total £
Previously reported as at 31 December	46,327,651	2,444,825	48,772,476	37,361,947
Solvency II adjustment	(73,406)	(2,074,418)	(2,147,824)	(1,440,513)
Adjusted as at 31 December - Note 17(a)	46,254,245	370,407	46,624,652	35,921,434

Fund for Future Appropriations

	2015 £	2014 £
Previously reported as at 31 December	11,215,063	10,166,059
Solvency II adjustment	2,147,824	1,440,513
Adjusted as at 31 December - Note 18	13,362,887	11,606,572

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHEFFIELD MUTUAL FRIENDLY SOCIETY YEAR ENDED 31 DECEMBER 2016

We have audited the financial statements of Sheffield Mutual Friendly Society for the year ended 31 December 2016, 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.

Respective responsibilities of the Committee of Management and auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 9, the Committee of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISA's"). Those standards require us to comply with the Auditing Practices Boards [(APB's)] Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2016 and of its income and expenditure for the year ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Period of engagement

Following the recommendation of the Committee of Management we were reappointed by the Society at its annual general meeting on 11 June 2016 to audit the financial statements of the Society for the year ending 31 December 2016. Our total uninterrupted period of engagement is 12 years, covering years from our appointment to the year ended 31 December 2016.

Audit commentary

Without modifying our opinion, we highlight the following matters that, in our judgement are likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures.

Our assessment of risks of material misstatement

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 £225,000 which is approximately 2% of the Fund for Future Appropriations.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHEFFIELD MUTUAL FRIENDLY SOCIETY - Continued YEAR ENDED 31 DECEMBER 2016

Our application of materiality - continued

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 £202,500.

However, given the nature of the Society's activities and taking into account the users of the financial statements, we consider this performance materiality level to be too high for the Income and Expenditure Account. Accordingly therefore, we set a lower planning performance materiality of £100,000 specifically for the Income and Expenditure Account. Our objective in adopting this approach is to ensure that total detected and undetected audit differences that would affect the Income and Expenditure Account do not exceed this performance materiality level.

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. 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. This review included the revised provisions as at 31 December 2015 which have been restated in the accounts to comply with Solvency II.
- 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.

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.

- Our duty to read other information in the Committee of Management Report:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Committee of Management's statement that they consider the Committee of Management Report is fair, balanced and understandable and whether the Committee of Management Report appropriately discloses those matters we communicated to the Committee of Management which we consider should have been disclosed.

We have nothing to report in respect of the matters set out above.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHEFFIELD MUTUAL FRIENDLY SOCIETY - Continued YEAR ENDED 31 DECEMBER 2016

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.

BHP, Chartered Accountants
Statutory Auditors
2 Rutland Park
Sheffield
S10 2PD

16 March 2017

ACTUARY STATEMENT IN ACCORDANCE WITH SECTION 77 OF THE FRIENDLY SOCIETIES ACT 1992 YEAR ENDED 31 DECEMBER 2016

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 £158,575 in 2016 (2015: £165,204).

Notes

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