Report & accounts

2022

Sheffield Mutual Est. 1892

Sheffield Mutual
Est. 1892

Contents

Overview

95% of members are likely to recommend us to a friend or relative

£2.7m declared in bonuses to members

Traditional membership increased to **12,738**

Total number of policies increased by **3%** to **18,978**

Including the CTF we now have **81,407** policies and accounts

What our members say

Gemma

★★★★★

"This is a lovely company to do business with - they pick up the phone! Quickly! I know that is so basic, but nowadays, a lost art. They are also engaged, intelligent team workers who make notes on your file and when they say they'll call you back, they do! Amazing. We cannot rate them any higher. They are local to the area their HQ is in which is lovely and you can hear their lovely accents. Great products, and great service. Thanks so much."

Clive Edwards

★★★★★

"The best kept secret in financial services?! I have been dealing with them again recently - superb as always. I've only just noticed the intention to allow policyholders access to online valuations on our investments which is a brilliant idea."

John Smith

★★★★★

"I can assure potential investers that customer service at Sheffield Mutual is second to none, they are always very polite as well as being knowledgeable. I am always happy to reinvest, and have always been satisfied with the returns. I cannot speak more highly of them."

Our customers say

Excellent ★★★★★

4.93 out of 5 based on **407** reviews

REVIEWS.io

Chairman's welcome

A warm welcome to all our members to our Strategic Report for the year 2022.

The year 2022 has brought its own new challenges, which will be discussed within our report. You will also see how your Society has adapted and evolved to deal with and meet those challenges whilst taking advantage of the new opportunities that we have identified during the year.

The unusual feature of 2022, from our investment point of view, has been the fall in value experienced by both the equity and the bond markets. We have a diversified portfolio of assets and our commercial property portfolio has performed well and we invested another £3.5 million in these assets during 2022. Overall however, we have experienced a fall in the value of our underlying investments.

This reduction in value came at a time when interest rates began to increase. The challenge, therefore has been to continue to provide competitive returns for our members in this environment. I am pleased that given these challenges we have been able to declare our interim rates. I would like to thank all our team at Sheffield Mutual; both employees and Board members in producing this result.

There are many factors to take into account when considering an investment. One element is the advertised initial return but there are of course other considerations. At Sheffield Mutual we aim to provide our members with an attractive investment over the long term. We provide an excellent level of customer service and a member of our team is always available during the day to assist. We know that our members value this service from the ratings on our website. It is this service which makes us stand out from our competitors.

We have continued work over the year on developing our website. During 2022 we have been working on the construction of the member portal and several tranches of that work have been completed. Work will continue during 2023. Our objective is to provide a website which ultimately gives increased functionality to members such as viewing balances, statements and updating details.

There have been significant changes over the year in our own office property. When 2022 began there was not sufficient room at the head office to accommodate all of our staff and our Board meetings, which were held offsite. I am delighted to say we have been able to take an extra floor of space in the upper unit adjoining our existing property. Over the year works have continued to integrate the new space into our existing accommodation. The result is a new open plan space for our staff, and meetings are now able to take place at head office. I do consider that it is important for Board members to see our working environment and chat informally with our staff. This expansion facilitates that goal.

We have been working over the year to commence implementation of the FCA's Consumer Duty which applies to all regulated firms not just mutuals. At our September Board meeting we agreed the plan to implement this duty and there are key dates during 2023 that have been earmarked for implementation of various aspects of the duty. The main ethos of the duty is "to treat customers as you would expect to be treated". This is a principle that as a mutual we have always respected and is fully in line with our vision to be the UK's most member focussed and trusted mutual society.

“In 2023 Sheffield Mutual will continue to prioritise the interests of you, our members. We will aim to provide an exceptional and trustworthy service through easy to understand products.”

One of my responsibilities is an annual evaluation of the Board and all individual Board members and executives. Prior to the pandemic I had intended to arrange an additional external evaluation by a third party but I decided to postpone until we could resume face to face meetings. Now that we have such meetings I arranged a formal executive Board review by Hanover Search who are specialists in Board performance. Following this review, I was pleased that their overall conclusion was that Sheffield Mutual has a strong and effective Board which has a focus on members, risk management and regulatory observance. There were of course areas highlighted where we can improve. I have a working group set up for 2023 to ensure that we can further develop our Board to take full advantage of the money invested in obtaining that report.

We have a new Board member to be appointed at our AGM this year. Faye Lageu has been recruited and was co-opted at our July meeting, taking on the Ambassador for Members and Consumer Champion roles. Faye has over 25 years of experience in the mutual financial services sector and her expertise is in sustainability, risk and corporate governance. She has worked internationally with many mutual organisations, and I am delighted to welcome Faye to our Board.

I will be retiring from the Board of Sheffield Mutual at our AGM in June 2023. I have been on the Board since July 2014 and I have been Chair since the 2018 AGM. It has been a privilege to work with Sheffield Mutual. It has been an enlightening experience working within the mutual sector after over 40 years in the private sector as a partner in a national commercial law practice. There are many skills which I learnt from my days in private practice which I have been able to use with Sheffield Mutual but equally I have learnt many things from working with a mutual. It has been very rewarding to see how both mutual and commercial organisations can operate successfully.

I am pleased to say that the Board has nominated Stuart Hately as my successor and Stuart will take over my role after the AGM. Stuart has already brought a wealth of investment experience to the Board and I know he will be an excellent Chairman. I wish Stuart well in this new position.

I would just like to say thank you to all the Board, the executives and all the staff for the amazing work you do, and it has been the best thing for me to work with you.

In 2023 Sheffield Mutual will continue to prioritise the interests of you, our members. We will aim to provide an exceptional and trustworthy service through easy to understand products and with the strongest returns possible.

Stephen Hindmarsh
Chair of the Governing Body
28 March 2023

Chief Executive's review

We started 2022 with great optimism after living under Covid rules for two years, but very early on in the year we were hit with the news of the war in Ukraine, which had a profound impact on a number of fronts. The invasion led to a humanitarian disaster, global energy crisis and food shortages. In the UK, living standards have been affected, with inflation reaching 9.6% by the end of the year, sparking fear of a prolonged recession. Inflationary pressures have hit many families hard and we've spoken with many of our members about how they've been financially impacted. Members have understandably queried the impact on their savings here at the Society. Our staff have been on hand to provide reassurance that the Society continues to be in a financially strong position, through prudent management and our mutual ethos.

The Bank of England base rate dramatically increased throughout the year to 3.5% as at the end of 2022, with an expectation of a peak of around 4.5% in 2023 but then a fall back in 2024. This has led to a significant shift in the savings market as banks and building societies chase to become market leaders; a very different landscape from just 12 months ago when many high street savings rates were set at 0.1%. Through our with-profits fund we aim for the bonus rates not to fluctuate too dramatically, as demonstrated through our historic performance, in order to ensure we can operate our long term smoothing process effectively. This becomes a challenge as competitors regularly alter their rates to attract custom but the potential final bonus provided on our products assists in boosting overall returns given back to our members. We offer a stable rate year on year, aiming for better rates than banks and building societies over the longer term by smoothing out inflation, which is something our members appreciate and why our satisfaction and retention levels remain high.

A growing membership base

In light of the cost of living concerns, we offered more flexibility in terms of catching up with premium payments and have aimed to discuss all options available to suit specific needs. After receiving feedback we also launched the Whole of Life Plan to replace Sheffield Protect, to offer a higher fixed sum payment.

We regularly send out satisfaction surveys and measure member retention, providing the following results:

- 95% of members are likely to recommend us to a friend or relative
- 94% of all policies remain open after one year and 86% of policies still remain open after four years

The Society has achieved growth within its membership base and the total number of active policies in 2022. This was mainly driven by the success of our Investment Bond and Investment ISA. We did, however, see a fall in the number of new policies, mainly due to a reduced level of disposable income for savers when compared with 2021. The following tables show how membership has developed in recent years:

Year ending	Number of members (excl CTF)	Number of policies (excl CTF)
31.12.20	12,258	17,379
31.12.21	12,627	18,498
31.12.22	12,738	18,978

Year ending	Number of new members (excl CTF)	Number of new policies (excl CTF)
31.12.20	929	1,927
31.12.21	1,092	2,328
31.12.22	757	1,689

Financial performance

We have performed well in a year where we have all been affected by rising costs and have understandably become more cognisant of our finances, checking that our savings are suitable for our circumstances. The Society received £17m of premium income in 2022. Premium income levels were lower than seen in 2021 for a number of reasons, but peaks and troughs are fairly common over the longer term due to economic trends, as we've seen historically at the Society.

Subscriptions and external transfers to the Investment ISA and Junior ISA generated circa £10 million (59%) of the total. Our Investment Bond and Income Bond received £4.2 million over the year, making up around 25% of premium income. Contributions to our regular savings products, including the Tax-Exempt Savings Plan, amounted to £2.6 million and, therefore, accounted for around 16% of the total.

The Society's unit-linked Stakeholder Child Trust Fund attracted premium income of £0.63 million during the year, made up of transfers from other providers and additional subscriptions to existing accounts.

Year ending	Premium income (excl CTF)	Assets (excl CTF)
	£000	£'m
31.12.20	17,772	141.0
31.12.21	21,656	156.5
31.12.22	17,010	150.7

Year ending	CTF premium income	Total assets (incl CTF)
	£000	£'m
31.12.20	484	183.0
31.12.21	609	206.5
31.12.22	627	201.1

Policy returns and bonuses

The Board declared annual policy bonuses worth in excess of £2.7 million for members in 2022 and all with-profits bond, ISA and endowment policies had their interim bonus rates declared in full. The Board also paid terminal bonuses on qualifying years for the Investment ISA and bonds opened prior to 2014, and maintained final bonus rates on maturing regular premium endowments.

Contributing to the community

As part of the 2022 Charity Award, we donated to three charities (The Clothing Bank, Thornberry Animal Sanctuary and LimbBo Foundation), with almost double the number of public votes we received in 2021. Through the popular Community Fund we also donated to nine charities, which included a family support package at the Children's Heart Surgery Fund, PPE for members of Fareshare volunteer team and the S6 Sheffield food bank.

In 2022 employees chose the Children's Hospital Charity as their charity of the year, donating £2,500, with further monies raised throughout the year via additional employee fundraising. In March we boxed up food, medical supplies and clothing to donate to Ukrainians fleeing to Poland and in December the team collected items to be packaged up and sent to the Sheffield Shoebox Appeal.

Investments

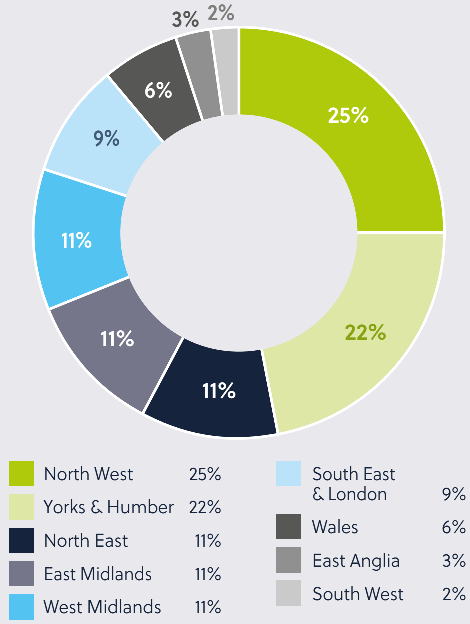
Many commentators would agree that 2022 was one of the worst periods on record for investors. Fears that central banks might raise rates too much and damage the economy drove equity market prices down for much of the year. UK markets had been volatile leading up to September 2022 but then the former Prime Minister and Chancellor announced huge fiscal stimulus, with little detail on how it would be funded. Many of the policies announced in that 'mini-budget' were reversed and the subsequent Chancellor Jeremy Hunt announced that the country would need to "tighten its belt".

Despite the above factors, which would have been felt more acutely across more traditional stocks and shares investments which fluctuate with market prices, the Society's rates remained stable. Our available capital reduced from £23.8 million to £17.4 million but remains more than 5 times the required minimum capital requirement; thereby maintaining a strong financial base.

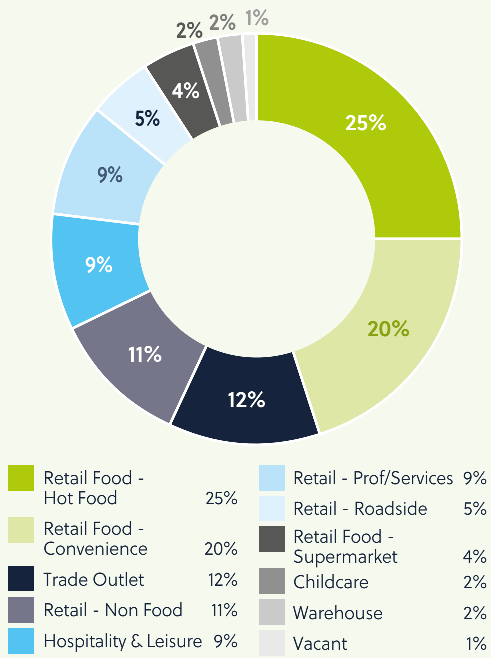
The Society's investment income was £5.8 million but after taking account of the unrealised gains and losses the overall return on the non-CTF assets for the year was -5.9%. With regards to fixed interest investments, the numerous shocks to the supply side of the economy forced central banks to undertake the swiftest hiking cycle in decades, resulting in a marked change from almost a decade of a low interest rate environment and a significant repricing in bond markets. Global equities suffered their worst year since 2008. The average U.S. stock fund finished the year down roughly 17%, the MSCI World index fell by 16% and the UK FTSE 250 fell by 20%. Looking ahead, our Outsourced Chief Investment Officer's (OCIO), Russell Investments, assure us that there is every reason to believe that both equities and bonds should rebound as they have historically done and outperform cash and inflation over the medium term.

Our commercial property portfolio, the Society's largest asset type within the pooled fund, achieved a positive return over the year at 7%. Location, tenant strength and sectoral diversity have been key to ensuring the portfolio continues to provide a stable return for our members. During 2022 the Society purchased a childcare nursery in Kidderminster, a Sainsbury's in Middleton-St-George and completed the development funding of the multi-tenanted units in Spalding. Three smaller retail units were sold during the year. The Society owns 43 geographically diversified commercial properties, with a total value of circa £49 million. As can be seen by the charts opposite we hold properties throughout the country, with a higher concentration in regions closer to the Society's heartland. It is also worth highlighting that vacancy is extremely low at 1% of the portfolio value.

% of property portfolio value within each region



% of property portfolio value within each sector



Asset mix

		2022	2021	2020
		%	%	%
Property		33.88	33.83	34.85
Mortgages on land and buildings		1.72	1.65	0.74
Listed investments:	- equities	32.08	26.09	31.08
	- fixed interest	28.01	26.99	28.94
	- alternative assets	0.84	3.39	2.83
Cash (excluding current account funds)		3.47	8.05	1.56
		100.00	**100.00**	**100.00**

The table above shows the asset split of the Society's investment fund at the end of 2022, with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

Child Trust Fund (CTF) maturities

The first CTF accounts matured in September 2020. Since then, only approximately 20% of matured policies have been paid out / transferred to a separate Sheffield Mutual policy, with the rest still held in a matured CTF account. One of the difficulties of these policies is ensuring all policyholder data is accurate, given the long term nature of the CTF, but our CTF team has sent communications to all maturing account holders and aimed to improve engagement to ensure that all savings are handled in line with how the policyholder would like their investment to be dealt with at the age of 18. All policyholders are urged to contact us should their details change or they wish to discuss CTF related issues.

On maturity, the policyholder has a number of options, including remaining invested with us in our adult Investment ISA, claiming the money or keeping the money held within a 'matured CTF' account until they're ready to decide.

Year ending	Number of CTF accounts (Incl. matured)	Fund due to policyholders (£'m)
31.12.20	63,077	37.42
31.12.21	62,766	43.35
31.12.22	62,429	43.25

Looking ahead

We have much planned for 2023, including investment in our team. Each department will see growth in resource, primarily to ensure that our first rate service standards are retained as the business grows.

We will be developing our internal systems and building a member portal to enable policyholders to view policies online, make payments and update details. Product development will also be a priority to build on the success of our existing offering and ensure key features are meeting our members' needs.

As part of our relationship with Russell Investments, we have also been working on a revised Sustainable Investing & ESG policy, which we will publish in 2023. The Society is targeting a net zero emissions goal by 2050 for our investment portfolio and will gradually transition towards this goal. 'Sustainable investing' continues to be a hot topic but understandably challenged by investors. The more standardised and clear regulation is, the more effective ESG integration will be. Our Chief Operating Officer has also provided a Report on environmental, social and governance matters which follows my report.

Consumer Duty is set to be a key piece of regulation for the financial services sector in 2023. This requires 'firms to act to deliver good outcomes for retail customers.' We believe that the mutual sector has led the way on this front for some time but it does aim to raise the bar for consumer outcomes, which must be welcomed.

Our Chairman, Stephen Hindmarsh, will be retiring at the June 2023 AGM. I'd like to express my gratitude to Stephen for his commitment to the Society and particularly for his term as Chairman over recent years. The relationship between CEO and Chairman is key to any business and is crucial to encouraging effective and honest communication between the Executive and Non-Executive teams. Stephen's legal knowledge and appreciation of the mutual sector will be missed, but as a member I'm sure that Stephen will continue to engage with the Society. The incoming Chairman, Stuart Hately, has been a Board member since 2018 and has been Chairman of the Audit & Risk Committee over that time. Having worked with Stuart over recent years I'm very confident that our new Chairman will continue to prioritise our members' interests and oversee the Society's growth during his tenure.

I'd like to finish by thanking our members. Your support and kind words continue to drive our team more than any performance target; please continue to engage with your Society. One of the few benefits of the rising cost of living is that it encourages people to be more discerning regarding their finances and challenging of the organisations looking after their money. Our hope is that our members recognise that we support their financial wellbeing and pass on their experiences to friends and family.

Jamie Bellamy
Chief Executive
28 March 2023

Environmental, Social and Governance (ESG) Report

As a member owned business, Sheffield Mutual has had is its members' best interests at its heart for over 130 years. The Board sees the treatment of environmental, social and governance concerns as a continuation of that ethos, to ensure that we are doing the right thing for our members, the community, and the future of the planet.

The 2021 Report and Accounts outlined our initial reporting disclosures: following the Taskforce on Climate-Related Financial Disclosure (TCFD) recommendations. It is intended that over time these disclosures will improve and adapt as we learn more about the implications of climate change through new information and science, and we tackle the things that Sheffield Mutual can do to limit its impact on the environment. This 2022 report will again look at the specific areas of the Society's impact on the environment through TCFD.

What is ESG?

Environmental, Social and Governance or ESG is a set of standards that are not only embedded in investing vocabulary but also used to dictate business culture and mentality. It is primarily used as a tool for socially conscious investors (like Sheffield Mutual) to use to help them screen investments but is also about doing the right thing and to hold companies to account.

- **Environmental** – looks at the controls and disclosures an organisation has in place to limit its impact on environmental factors.
- **Social** – places an onus on how an organisation acts within its community, does it do the right thing? Does it support the community in which it operates, through things like charity and community work?
- **Governance** – scrutinises an organisation's leadership, such as the diversity, equality, inclusionary makeup of the business, including the Board.

ESG: Environmental and climate change

Climate change risk is seen as one of the biggest systemic risks to market stability.

The Society has an environmental impact and footprint through its operations: travel, energy usage, waste, and water and through our commercial property and investment portfolios. The Society continues to implement initiatives and policies in line with recommendations from the Climate Financial Risk Forum (CFRF) and our regulators.

The PRA states that financial risks of climate change can be categorised as:

- **Transition risk** – is the implications of transitioning to a low carbon economy and the impact that could have on businesses and investments. For example, if an organisation is not seen to be transitioning away from polluting activities, then this may have an impact on their business, commercials and even turn potential investors away.
- **Physical risk** – is the actual physical risks caused by climate change, such as increased intensity of storms, high temperatures or sea levels rising.
- **Liability risk** – is the risk of compensation for losses being sought in response to physical or transition risks from climate change.

Taskforce on Climate-related Financial Disclosures (TCFD)

Governance

As required by our regulators, the PRA and the FCA; the Chief Operating Officer is the Senior Manager responsible for the financial risks of climate change at the Society. It is within their remit to ensure that the Board and its sub-committees discuss climate change implications where necessary.

The Board is presented with climate change risk scenarios at least annually by the Chief Actuary. These scenarios are produced in conjunction with the Chief Executive and the Chief Operating Officer.

The Finance and Investment Committee (FIC), discusses the implications of the financial risks of climate change at its monthly meetings. Climate change forms a key element of the discussions in this sub-committee regarding the property and investment portfolios, future purchases, and relationship with the Outsourced Chief Investment Officer (OCIO), Russell Investments.

The Chief Operating Officer also represents the Society at the Association of Financial Mutuals (AFM) quarterly Climate Change Roundtables, a forum which they chaired twice in 2022.

The Board completed various training sessions on climate change throughout the year.

Strategy

The Society's climate change strategy and objectives were approved by the Board in 2021 and were highlighted again as an objective for the three year strategy 2022 to 2024. The Board continues to meet face to face at least six times a year, but the monthly sub-committees are conducted virtually, unless the date coincides with a face to face Board meeting.

The Society expanded its office in 2022, however work has continued to reduce our overall carbon footprint. How the Society calculates its carbon footprint was also improved to give a more accurate view of emissions. Office operations (excluding the new expansion) used 6.04 tonnes of CO2e in 2021, this was reduced to 5.35 tonnes of CO2e in 2022. 100% of the electricity used at the Society is from renewable sources meaning the actual CO2e produced is significantly less than reported. The Society offset 40 tonnes of CO2e through Make it Wild tree planting, and also contributed further to plant an additional 20 trees following the AGM votes. The offsetting includes all scope 1 emissions; employees commuting to the office and the level which would be produced if the Society used a non-renewable source of electricity: therefore offsetting more than the Society's total emissions.

Work continues to reduce paper within the office, as the development of the member portal and website continues. Paper used for member correspondence, product literature and statements is produced using Forest Stewardship Council (FSC) responsible sources.

"The Board sees the treatment of environmental, social and governance concerns as a continuation of that ethos, to ensure that we are doing the right thing for our members, the community, and the future of the planet."

Risk Management

Climate change has been reported to the Audit and Risk Committee (ARC) since 2020 as a principal risk through the risk management system, allowing climate change risks to be monitored and discussed regularly by both the ARC and the full Board throughout 2022.

The Chief Operating Officer presents climate related reverse stress test scenarios to the ARC at least quarterly.

Metrics and Targets

Climate change metrics are built into the Chief Executive and Chief Operating Officer's annual bonus scheme. Carbon offsetting continued throughout the year with the planting of trees in our Yorkshire heartland.

Carbon emissions are categorised under three scope levels:

Scope 1 – own consumption emissions - The Society has been working towards reducing its carbon footprint through 2022. All lights across the office were replaced, sustainably, with LED lights. All team members ensure that all lights, pcs, laptops, and monitors are switched off at the end of the day. The majority of the electric wall heaters have been removed completely, relying on our energy efficient systems to maintain workable temperatures in the office. The electricity to the office is from a 100% renewable source and has been since 2017. The Society has one pool car which is used only for meetings which cannot be held virtually, the vehicle has a small eco-friendly petrol engine and fuel consumption is tracked and offset annually.

The Society has a target of continuing to reduce its scope 1 emissions to reach or get closer to net zero over the next ten years.

Scope 2 – indirect emissions - The Society holds a property portfolio which is managed directly by the Society and the Board. In 2021 the Society started a comprehensive examination of its properties' energy performance certificates (EPC) and to work with tenants and our property managers, CPP, to produce and deliver recommendations. It is difficult to aim for a target of a desirable EPC score due to the nature of commercial properties and the cost implications on our members this could have, however over the coming years we expect to see some shift and changes being made as we and our tenants make eco-friendly changes to how the buildings operate.

All our team members live locally and a short distance away from the office, hence their commute has a very minimal impact on our carbon footprint.

Scope 3 – Investment Portfolio - Russell Investments as the Society's Outsourced Chief Investment Officer (OCIO) is part of the UK Stewardship Code and has been a signatory of the UN Principles for Responsible Investment since 2009. The investment portfolio is targeting a net zero carbon emissions goal by 2050. In 2020 the Society sold its equity holdings in oil and gas. During 2022 the investment portfolio continued with no direct holdings within oil and gas and excludes companies that are significantly involved in coal production.

ESG: Social

The Social element of ESG refers to the relationship Sheffield Mutual has with its stakeholders, its community and its people. At the top of the Society's social strategy is charitable activities. The Chief Commercial Officer leads this through various schemes:

- The Community Fund – a pot of money to support the social needs of the local community. In 2022 the fund donated £2,470 to nine charities, including: Mencap, Sharewear, Children's Heart Surgery Fund and a local Scout group.
- The Charity Award – is an annual award for our members to nominate a charity to be given the chance to be awarded with financial funding and an opportunity for the charity to gain exposure. In 2022 the Society donated £7,500 to three charities: The Clothing Bank, Thornberry Animal Sanctuary, and LimbBo Foundation.
- Employee charity of the year – The team at Sheffield Mutual select a charity each year, which was The Children's Hospital Charity in 2022. The chosen charity is awarded with £2,500. The team raise money through various social and event activities and they are able to use their time through volunteering days to support the charity operations.
- The Social and Events team organised a collection of items to be sent to Ukraine to support those escaping the war.
- A couple of Board members hold charity trusteeships outside of Sheffield Mutual, including RSPCA Sheffield and Sheffield Hospitals Charity.
- The Finance and Investments Committee has a strategy of acquiring several community based commercial properties, such as medical centres and childcare nurseries.

ESG: Governance

The Governance element of ESG refers to how a business is governed particularly around shareholder rights, board diversity and board compensation.

In 2021 Sheffield Mutual introduced two sub-committees to the Board which are which are made up of non-executive directors.

- The Nominations Committee, which is chaired by the Senior Independent Director, is responsible for the Board diversity and nomination process. It was formed to establish a diverse and inclusive Board, including ensuring independence of its members is maintained. In 2022 the sub-committee increased the female representation of the Board from 18% to 25%.
- The Remuneration Committee advises the Board on non-executive, executive and employee remuneration based upon extensive research of the industry and market.

Paul Galloway
Chief Operating Officer
28 March 2023

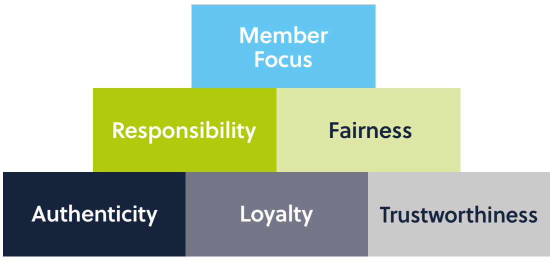
Strategic management

Business model

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

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

Our core values:



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

- **Direct** - Online, postal and telephone applications, digital advertising, printed heartland advertising and newspaper editorials
- **Social** - Member referrals (Tell-a-Friend), Advocates, Community Fund, Social Media
- **Intermediaries** - Financial Adviser advised and non-advised sales and non-advised referrals

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

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

The Society's key strategic priorities are as follows:

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

Principal risks and uncertainties

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

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

Future prospects and viability statement

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

Strategy and objectives

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

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

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

In 2022 we implemented various initiatives and policies, in line with recommendations made by the Climate Financial Risk Forum (CFRF). Our Chief Operating Officer has provided more details on pages 12-15.

In line with our history, heritage and ethical values, Sheffield Mutual is committed to helping good causes in the course of doing business. During 2022 we donated more than £17,500 to various charities and good causes and we have made a commitment to maintain our support in 2023.

Board of Directors

Jamie Bellamy
Chief Executive

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

Anthony Burdin
Non-executive director

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

Janet Burdin
Non-executive director

Jan has over 20 years' experience in the mutual financial services sector, having held various senior positions in two medium-to-large building societies. Jan served as Chairman from 2015 - 2018 and brings a wealth of relevant skills to the Board, particularly in the areas of customer services, sales management, team performance and regulatory compliance. Having been semi-retired since 2009, Jan now spends her spare time enjoying gardening, walking and bowling.

Paul Galloway
Chief Operating Officer

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

Stuart Hately
Chair of the Audit and Risk Committee

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

Stephen Hindmarsh
Chairman

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

Faye Lageu
Non-executive director

Faye has represented the interests of financial mutuals around the world, for over 25 years as a strategy advisor, bringing extensive knowledge in a range of areas from marketing and corporate governance to leadership development and claims management, but focusing on her key specialisms of sustainability and member value. She is also an associate consultant working with life and health insurers in Europe and the Gulf region; a board member for a Canada-based organisation that promotes executive education for mutuals; and is an external supervisor for MBA students from mutual companies. She joined the Society's Board in 2022 and is the Ambassador for Members. She is an avid walker, yogi, Argentine tango dancer and silversmith, and loves live music and theatre.

Courtney Marsh
Non-executive director

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

Neil Spawforth
Chair of the Finance & Investments Committee

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

Adrian Stone
Non-executive director

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

Andrew Thorpe
Senior Independent Director

Andrew has been on the board since 2019 as a non-executive and currently works for Nuance Communications as a Solution Architect. Previously he was employed by HSBC from 2005-2022, most recently acting as their Head of Contact Centre Infrastructure for the EMEA region, which involved oversight of data security / integrity and supervising the migration of telecommunications services solutions. IT & Data Security expertise is increasingly important within any organisation and Andrew was identified by the Board as having the necessary knowledge to advise the Society on these areas.

Dawn Webb
Chief Commercial Officer

Dawn joined the Society in 2008 and is responsible for the creation and execution of commercial strategies in line with the business plan and ongoing future growth of the Society. Dawn is responsible for the leadership of both the Marketing & Communications and Business Development teams. Dawn has over 25 years' experience in the retail/financial services sector, spending several years in a management level role at a large UK bank before joining Sheffield Mutual. Dawn is a certified professional marketer having completed qualifications via the Chartered Institute of Marketing. Dawn is a keen birdwatcher who loves nature and spending time with her husband and their two dogs.

Corporate Governance Report

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

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

Principle	How SMFS has applied the Principle
Purpose and leadership An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.	The Society's purpose, vision statement and core values (outlined on page 16) are agreed annually and were last reviewed in September 2022. The Executive Team propose how they expect to achieve the vision, setting out a three year strategy, which is monitored by the Board on an ongoing basis. A business plan is prepared annually, reflecting on emerging risks and opportunities, and is aligned to the overarching strategy. The 2022-24 objectives were amended in July 2022 to reflect the external economic circumstances and the changing savings landscape. As a smaller financial institution we're able to adapt fairly quickly, bearing in mind longer term targets and our commitments to members.
	A Board effectiveness review was carried out in 2022, with a working group formed by the Chairman to set actions and timescales for the recommendations made.
	The ethos of the Society has been refined over a number of years and regularly discussed with employees during inductions, team meetings and appraisals. To maintain our culture for the long-term we aim to empower employees by promoting internally where possible.
Board composition Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.	Our Chairman, Stephen Hindmarsh, has significant legal experience and is able to draw on this experience to facilitate constructive discussion during meetings. A succession plan is in place to replace Stephen as Chairman after the 2023 AGM, with training to be provided. The Society has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained.
	The Board consists of 12 members; three executives and nine NED's, with each member bringing a range of expertise, including property management, legal, risk and compliance, sales and marketing and accountancy. All directors have equal voting rights when making decisions, except the Chairman, who has a casting vote.
	Board members are subject to election every three years at the AGM in accordance with the Society's Rules. 67% of the Board's members were assessed as independent as at the year-end, and therefore in line with the Code guidance. The Nominations Committee discuss the Board's composition of skills and diversity, conscious of the long-term nature of the business, and ensure a succession plan is in place.
	Internal Board appraisals are carried out annually with written feedback given to each Member individually on a confidential basis. The SID also carries out the annual appraisal of the Chairman's performance. The Chairman leads an annual evaluation of the Board and its sub-committees. Training requirements are assessed by the Chairman with the assistance of the Chief Executive and Chief Operating Officer throughout the year, to ensure all non-executives complete at least a minimum of 15 hours CPD. Non-executives are asked to attend external seminars and conferences and internal training sessions are held and presented by a number of organisations including compliance consultants and investment managers. A separate online training facility is also available.

Principle	How SMFS has applied the Principle
Director responsibilities The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.	All directors and non-executive directors complete an annual fit and proper person test to ensure that they are suitable and able to carry out their roles and to provide transparency with regards to any potential conflicts of interest. The Board also reviews the Management Responsibilities Map on a quarterly basis to ensure that all Board members are aware of their responsibilities under the SM&CR and that there are clear lines of accountability.
	The ARC enhances independence in communication and oversight particularly around the internal and external audit process. The separate Nominations and Remuneration sub-committees also improve independence and Board accountability. Terms of reference are in place for each of the Board's sub-committees and are subject to annual review with any recommended changes submitted for Board approval.
	Our internal auditors, RSM, present to the ARC on a quarterly basis. The internal audits carried out during 2022 demonstrated that we have effective governance arrangements and robust operational resilience procedures in place. The Executive Team provide management responses and timeframes for actions to recommendations made. The external audit also provides strong assurance to the Board and the Society's members that solid processes are in place to confirm the integrity of information provided. The Board receives regular reports (at least monthly) from the Executive Team, Outsourced Chief Investment Officers, property managers etc. on all key areas of the business and its performance.
Opportunity and risk A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.	Using the Own Risk and Solvency Assessment (ORSA) report and business planning, the Board debates the Society's risk appetite, carrying out scenario testing and identifies how any potential threats can be successfully managed and converted into opportunities. The oversight of the Society's risks is carried out by our ARC on at least a quarterly basis, with the Chief Operating Officer monitoring risks throughout the year via the risk register and reverse stress testing. The Society's key risks are outlined on page 23-25. The Society has invested and increased its resources in risk management over recent years, with more third party assessments on cyber security, expertise in IT security, and further recruitment within the Risk & Compliance team. Through monitoring risks and identifying how they can be mitigated we are invariably able to turn them into opportunities and build them into business planning. For example, IT systems are continually improving but can present risks if investment isn't made. Due to the changing labour market, several staff members left the Society but we used this as an opportunity to restructure our departments, rather than source direct replacements. We also saw an opportunity to expand our office site to better accommodate our team, to provide the space for further growth and offer a more welcoming environment for our members and Board to visit our head office.
	Throughout the business there are strict controls in place to mitigate risk, as set out mainly within our ORSA, Internal Controls, Board Manual and Compliance Manual, detailing approval limits on transactions, user permissions, etc. These controls are reviewed at least annually and approved by the Board. An audit Assurance Map has been developed to aid debate around areas of risk within the business and to better plan for internal audits over the medium to long term.

Principle	How SMFS has applied the Principle
Remuneration A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.	Employees and executive directors are remunerated based on market rates and bonuses are paid based on the Society's performance to encourage a common goal. Directors' bonuses include targets linked to the success of the three yearly strategic review aligning to longer term success. Executive bonus schemes are linked to environmental, social and governance targets to improve executive accountability on these issues. Each employee's job specification is considered in isolation and an appropriate remuneration package designed depending upon the nature and seniority of the position. An internal review was carried out on the Society's bonus scheme to make it more focussed on individual and departmental objectives to encourage ownership and accountability. Board remuneration is detailed on pages 31-32. Further to an independent third-party review and a recommendation from the Remuneration Committee, a revised remuneration structure was implemented in 2022.
Stakeholder relationships and engagement Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	Our team is one of the main reasons our members value being with the Society due to the personal service we provide. All employees have pension policies and the option to open a Society Pension Plan invested in the with-profits fund or into the Aviva Pension Plan. Faye Lageu has been appointed our NED Ambassador for member engagement and Consumer Duty Champion, to regularly monitor feedback from members through various avenues and discuss this with the Board on a quarterly basis. All 21 employees are based at the Tankersley head office. We aim to hold full team and departmental meetings on a regular basis. The Executive Team each have responsibility for the various departments within the business and are therefore very close to operations and have direct daily engagement with employees.
	The Society, in conjunction with the AFM, regularly liaise with our regulators and the government to seek improvements to friendly society law. In 2022 the CEO contacted HM Treasury and the Executive Team contacted their local MP's, regarding the Co-operatives, Mutual Insurers and Friendly Societies Bill and encouraged more awareness around the benefits mutual businesses bring to local communities and their members, taking account of the recent failed demutualisation of LV=.
	In line with our history, heritage and ethical values, Sheffield Mutual is committed to helping charities and good causes. In 2022 we asked members and the general public to nominate charities to win a Charity Award, with the top three receiving donations of £5k, £1.5k or £1k. Sheffield Children's Hospital Charity was the employees' chosen charity receiving £2.5k, a charity which helps to create a healthier future for children and young people who visit Sheffield Children's Hospital by buying life saving equipment, funding vital research and treatment for patients. Also, each year the Society aims to make funds available for donations to smaller local charities, community groups and voluntary organisations from the Sheffield Mutual Community Fund.
	Payments to our suppliers are always within the requested payment period unless there are outstanding queries.

Chairman's Statement on Corporate Governance

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

Stephen Hindmarsh
Chairman
28 March 2023

Risk management

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

- The Society operates a three lines of defence model for risk management.
- The oversight and direction of the Board remains central to risk management. The Board has delegated oversight of risk management to the ARC. The ARC ensures that appropriate policies, procedures, and processes are implemented across the business to control and monitor both the actual and potential risk exposures which arise from the Society's operations.
- The ARC ensures risks are aligned to the Society's risk appetite and that any unacceptable risk exposures are identified and either eliminated or where appropriate mitigated.
- Through the Risk Register the Society has identified areas of potential risk and considered how they can be either accepted, mitigated, or removed. The Risk Register also contains trigger points for each risk at which certain management actions must be implemented. The Chief Operating Officer and Chief Executive along with an ongoing assessment of known risk exposures, monitor external and emerging risks within the Risk Register. The ARC review the Society's Risk Register in detail at least quarterly.
- The Board reviews the Society's risk appetite and principal risks at least annually, covering areas of risk such as solvency, liquidity and operational risk.
- Risks which could threaten the Society's business model are assessed, managed, and mitigated through a process known as reverse stress testing.
- The ORSA is also central to the risk management framework.

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.

Market risk

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

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

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

In order to mitigate market risk, the Board took the decision to appoint Russell Investments as the Society's outsourced Chief Investment Officer (OCIO) in 2021. Russell Investments oversee the Society's investment asset allocation taking account of capital requirements, investment return required and market volatility. They look to choose the most appropriate investment managers on our behalf, at a significantly reduced cost compared with the Society directly approaching the manager, which also reduces reliance on one investment managers expertise and can offer diversification in additional asset classes.

Concentration of market risk

The following tables provide details of the Society's equities (including alternative assets) by region.

Region	%	£
Global Equities	17.94	7,688,591
US	8.04	3,446,610
UK	65.57	28,103,126
Pan Europe ex UK	2.27	972,121
Japan	1.65	706,997
Emerging Equity	4.53	1,944,241
Total		**42,861,686**

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.

Credit risk

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

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

Concentration of credit risk

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

	%	£
UK fixed interest	50.18%	18,874,916
Overseas fixed interest	49.82%	18,739,505
Total		**37,614,421**

Liquidity risk

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

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

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

Liquidity risk is managed as follows:

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

Insurance risk

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

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

The Society manages insurance risk by:

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

Concentration of insurance risk

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

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

	2022	2021
	£000	£000
ISA	**81,007**	76,869
Investment bond	**36,232**	36,496
Pure endowments	**13,454**	15,315
Taxable saving plans	**5,617**	6,870
Sickness and death	**787**	975
Endowments	**731**	813
Other	**701**	848
Pension bond	**139**	260
Total	**138,668**	138,446

Additional business risks

Risk type	Description	Mitigation
Strategy	Strategic risk is the risk of the Society entering unprofitable markets or offering unprofitable products.	The Board has a well established strategic planning process. The three-year strategy is approved by the Board and monitored annually.
Operational	Operational risks include risks such as systems and controls, governance, emerging, regulatory and legal and employees risk.	The Society has in place policies and internal controls which outline how its operational risks are mitigated. The annual Operational Resilience Board attestation delivers tolerances for these risks.
Cyber	Cyber risk is the exposure the Society has to IT and cyber security risks leading to detrimental harm to the Society and members or losses through data breaches or cyber-attacks.	Cyber is an ever evolving risk and high on the Society's risk agenda. The Society continues to invest in this area through team development and training, IT systems and other tools.
Conduct	Conduct risks relate to the ability of the Society to conduct its business fairly and properly in relation to its members and employees.	Conduct risks are monitored through the Risk Register and presented to the ARC on a quarterly basis.
Member Treatment	The fair treatment of members is at the heart of everything the Society does.	Reports are presented to the Board twice-annually, and individual risks to ARC at least quarterly.
Climate Change	Climate change risks include transitional and physical risks which may directly or indirectly impact the membership.	Climate change risks are monitored closely in the Risk Register. Work is ongoing to reduce carbon emissions of the Society.

Directors' Report

Responsibilities of the Board

In 2022 the Board comprised of nine non-executives; Chairman, Senior Independent Director (SID), seven other non-executive members; and three executive members (Chief Executive, Chief Operating Officer and Chief Commercial Officer). The Chairman believes that the balance of skills and experience of Board members is appropriate to the current requirements of the business.

The Board determines the strategic direction of the Society and reviews its operating and financial position. The Board met on six occasions during 2022 and there is a schedule of regular reports and information, which they consider at the meetings and which is agreed annually. Reports are provided to the Board in advance of each meeting. The Chief Executive is responsible for carrying out the agreed strategy and the day to day running of the Society and there is a clear division of responsibilities between the roles of the Chief Executive and Chairman.

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

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

The Chairman is responsible for ensuring that members of the Board receive accurate, timely and clear information in order to discharge their duties effectively and the Society's Secretary is responsible for ensuring good information flows within the Board and between senior management and the Board. The roles of Chief Executive and Secretary should ideally be split but the Board is confident that it received good information flows, guidance and support with the existing position. The Board and Sub-Committees can also obtain assistance from the Chief Operating Officer, Chief Commercial Officer and other employees if required.

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

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

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

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

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

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

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

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

Attendance at meetings

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

	Board	FIC	ARC	NC	RC	WPAA
J Bellamy	6 (6)	11 (11)	4 (4)	3 (3)	3 (3)	3 (3)
S Birch	3 (3)	3 (3)	2 (2)	-	-	-
A Burdin	6 (6)	7 (7)	4 (4)	-	3 (3)	-
J Burdin	6 (6)	9 (9)	-	3 (3)	3 (3)	2 (2)
P Galloway	6 (6)	11 (11)	4 (4)	-	-	-
S Hately	6 (6)	6 (7)	3 (4)	-	-	-
S Hindmarsh	6 (6)	10 (11)	-	3 (3)	3 (3)	-
F Lageu	3 (3)	3 (3)	-	-	-	-
C Marsh	5 (5)	5 (5)	2 (2)	-	-	-
N Spawforth	6 (6)	11 (11)	-	-	-	3 (3)
A Stone	6 (6)	5 (6)	4 (4)	3 (3)	-	-
A Thorpe	6 (6)	7 (8)	1 (2)	3 (3)	3 (3)	2 (2)
D Webb	6 (6)	5 (5)	-	-	-	-

C Marsh and F Lageu were appointed during 2022. S Birch retired from the Board at the 2022 AGM.

Finance & Investments Sub-Committee (FIC)

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

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

Audit & Risk Sub-Committee (ARC)

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

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

Nominations Sub-Committee (NC)

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

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

Remuneration Sub-Committee (RC)

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

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

Internal controls

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

External audit

Royce Peeling Green Limited (RPG) was appointed by the Board as external auditors on 30 July 2021, following recommendation by the ARC, and subsequently formally appointed by the Society's members at the June 2022 AGM. They will be offering themselves for re-election at the 2023 AGM. RPG provides no non-audit services.

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

With-profits governance

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

Report of the Board to with-profits policyholders

The Board is required to produce a report to all with-profits policyholders explaining how it has managed its with-profits business, complied with the PPFM and how the Board has exercised discretion in its decisions. This report will be available from the Society's website before 30 June 2023.

Going concern

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

Operating powers

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

Solvency

The Society had the required margin of solvency as prescribed in regulations made by the Prudential Regulation Authority for its relevant classes of business at 31 December 2022.

Complaints by members

The Society has a documented complaints procedure and aims to treat its members fairly. There were six upheld reportable complaints in 2022.

Disclosure of information to the auditor

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

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

The Board members who held office at the date of the approval of the Report and Accounts confirm that, as far as each of them is aware, there is no information relevant to the audit of the Society's financial statements for the year ended 31 December 2022 of which the auditors are unaware;

And,

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

Jamie Bellamy
Secretary
28 March 2023

Board Evaluation Report

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

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

The Nominations sub-committee has made further improvements to various governance policies, including the succession plan. Subject also to the Society's rules, new appointments to the Board are being made on the basis of three-year terms. Where Board members have held their position for more than nine years, they will be subject to re-election at the Society's Annual General Meeting on a year by year basis. Justification for remaining after nine years will be based on the skills matrix and agreed by the Nominations Committee. The Society has a formal diversity policy for Board appointments.

The Society sees diversity at Board level as an important consideration in maintaining a balanced and cohesive governing body. The Society will seek to utilise different skills, industry experience, background, race, gender, sexual orientation and other qualities of Board members. These factors will be considered in deciding the best composition of the Board and, when possible, should be balanced appropriately. All Board appointments will be made on merit based on the skills and experience required to best meet the role specification and make an effective contribution.

There is one Board member offering herself for election at the AGM, one offering themselves for election having served a three year term and three offering themselves for re-election having served for more than nine years. With regards to those offering themselves for re-election having served more than nine years, the Chairman and SID confirm that, following formal performance evaluations and the completion of a skills matrix, the individuals continue to demonstrate commitment and due skill to the role and therefore recommend that they should be re-elected, "Neil's knowledge of commercial property is of considerable value to Board deliberations on investment matters. Tony has relevant skills in new product development which is a priority for Sheffield Mutual in 2023. Jan has held senior positions within the mutual financial services sector and continues to use that experience for the benefit of the Society. We confirm that all three Board members remain effective."

"The Board has continued to develop its knowledge by receiving specialist presentations from the Actuary, Internal Auditors, Investment Managers, solicitors, property specialists and through attending various industry seminars."

Board Remuneration Report

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

During 2021 the Remuneration Committee appointed an independent consultant (Reward Risk Ltd) to review non-executive fee levels. The review was considered and modified to update Board remuneration for 2022. Non-executive Board members were remunerated with a flat fee of £10,000 p.a., with additional payments of £4,500 p.a. to the Chairman, £5,200 to the Chairman of the ARC, £3,300 to the Chairman of a sub-committee and £1,900 p.a. to members of a sub-committee. For 2023, the Board has agreed to increase fees in line with inflation. Therefore, the flat fee will be £11,000 p.a., with additional payments of £4,950 to the Chairman, £5,750 to the Chairman of the ARC, £3,650 to the Chairman of a sub-committee and £2,100 p.a. to members of a sub-committee. The fees are neither pensionable nor performance related.

The Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Commercial Officer (CCO) are employed on salaried contracts, which require six months notice' for the CEO or three months notice' for the COO and CCO. Their salary packages are reviewed annually by the Board without them being present. As with non-executives, the Remuneration Committee requested that the independent consultant also review executive salaries. The Executive Team are members of the Society's Group Personal Pension Scheme and are eligible for a discretionary performance related annual bonus payment of up to £11,000 for the Chief Executive and up to £7,000 for the Chief Operating Officer and the Chief Commercial Officer, which may be paid as pension contributions. An additional element is included within the Executive Team bonus scheme relating to longer term business targets. If certain objectives are attained throughout the three-year period 2022-24, up to £2,000 per annum will be awarded to the CEO and £1,000 per annum to the COO and CCO, paid in 2025. Discretionary Christmas awards are also paid to the Executives (and all other employees). None of the Executive Team served as remunerated non-executive directors elsewhere during the year.

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

Board Members' emoluments

	Salary/fees & expenses	Bonus	Taxable benefits	Pension contributions	2022 total	2021 total
	£	£	£	£	£	£
Chairman						
S Hindmarsh	21,954	-	-	-	21,954	15,013
Board						
S Birch	6,436	-	-	-	6,436	10,405
A Burdin	14,462	-	-	-	14,462	10,253
J Burdin	17,451	-	-	-	17,451	13,726
S Hately	15,353	-	-	-	15,353	13,079
F Lageu	5,121	-	-	-	5,121	-
C Marsh	9,688	-	-	-	9,688	-
N Spawforth	15,389	-	-	-	15,389	12,104
A Stone	13,872	-	-	-	13,872	10,036
A Thorpe	18,366	-	-	-	18,366	10,051
Chief Executive						
J Bellamy	117,000	15,425	376	7,020	139,821	128,501
Chief Operating Officer						
P Galloway	83,600	9,795	376	5,016	98,787	92,996
Chief Commercial Officer						
D Webb	60,500	7,350	376	3,630	71,856	59,226

Independent Auditor's Report to the Members of Sheffield Mutual Friendly Society Limited

Opinion on the financial statements

We have audited the financial statements of Sheffield Mutual Friendly Society Limited ('the Society') for the year ended 31 December 2022, which comprise of 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, The Financial Reporting Standard applicable in the UK and Republic of Ireland, and FRS 103, Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2022 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Basis for opinion

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

Conclusions relating to going concern

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

- Reviewing budget financial information for the financial year ending 31 December 2023, and up to date post year end management accounts
- Reviewing the Society's business plan 2023 including medium term forecast to 2025
- Reviewing the Society's Own Risk and Solvency Assessment and Forward-Looking Assessment of Own Risk reports
- Reviewing Board and Subcommittee minutes
- Discussions with our Reviewing Actuary on the appropriateness of assumptions and potential sensitivities in the Technical Provisions and Solvency Capital Requirement calculations
- Discussions with management and the Board on such matters and post balance sheet events which may impact the going concern status

From the work undertaken, we noted that the Society's solvency position was in excess of 162% as at 31 December 2022 and well above the risk thresholds management has set to initiate a responsive action. The Society is also projected to remain solvent in the medium term forecast period to 2025 taking into account several potential downside scenarios. However, like many other societies, the Society's solvency position is sensitive to movements in the risk-free rates and changes in the investment market which are largely outside their control.

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

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

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Board that may have represented a risk of material misstatement. All audit work was performed directly by the audit engagement team with the assistance of external actuarial experts ('the Reviewing Actuary').

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 a level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined materiality for the Society to be £724,000 which is approximately 3% of the prior year Fund for Future Appropriations.

On the basis of our risk assessment, together with our assessment of the Society's overall control environment, our judgement is that the overall performance materiality level should be 75% of materiality, namely £543,000.

We agreed with the Board that we shall report to them misstatements in excess of £27,000 that we identify through the course of the audit, together with any qualitative matters that warrant reporting.

We also determined that for items in the Income and Expenditure Account (I&E), a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. As a result we determined I&E materiality to be £340,000 based on 2% of earned premium income. The change was due to our assessed risk of material misstatement and expectation of users of the financial statements. We further applied a performance materiality of 75% of I&E materiality to ensure that the risk of errors exceeding I&E materiality was appropriately mitigated.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of the Long term business provision As at 31 December 2022, the Society recognised a long term business provision of £137.3m (2021: £136.8m) in respect of its non unit linked insurance business. Due to the size and nature of the provision, we consider this to be material to the financial statements. The provision is calculated using policy data held on the Society's administration system and assumptions set using internal and external data as inputs to the actuarial valuation model. Through the selection of appropriate assumptions, the Board is required to make significant judgements in conjunction with the advice of the Chief Actuary. These judgements involve considering whether the assumptions appropriately reflect the Society's experience, circumstances and future expectations.	In assessing the valuation of the Long term business provision, we performed the following procedures: • We engaged the services of a suitably qualified, independent and experienced actuary to review and report on the methodology and assumptions applied by the Board in the calculation of the Long term business provision, and on the accuracy of the calculation itself. • We tested the integrity of the Society's policy administration data to ensure the data being used by the Chief Actuary was accurate. The testing included sample checks on premium income streams, claims paid, data integrity checks on key fields and reconciliation of policy numbers. • We reviewed the reasonableness of the assumptions used in the calculation and considered the advice of the Reviewing Actuary as to whether those assumptions were reasonable and the impact they had on the calculation. • We challenged the Board's assumptions in terms of future budgeted expenses and levels of projected new business, and compared previous budgets to actual results to assess the reliability of the Society's budgeting process. We also reviewed post year end management information.
Our conclusion Overall, based on the assumptions and methodology used at 31 December 2022, we consider the valuation of the long term business provision recognised within the financial statements to be appropriate and reasonable and properly disclosed.	

Key audit matter	How our audit addressed the key audit matter
Management override of controls Auditing Standards require us to communicate the fraud risk from management override of controls as significant. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	In assessing the risk that accounting records and the financial statements are materially misstated through management overriding controls, we have performed the following procedures: • We tested journals and other transactions and evaluated whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud. • We reviewed bank transactions throughout the year and since the year end for material and round sum amounts and evidenced these back to appropriate documentation and authorisation. • We reviewed the completeness and reasonableness of accounting estimates (in conjunction with work performed on the Technical Provisions noted earlier). • We checked the consistency and appropriateness of accounting policies and disclosures in the financial statements.
Our conclusion Overall, we are satisfied that the accounting records and financial statements are free from material misstatement in this respect.	

Other information

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

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

Opinion on other matters prescribed by the Friendly Societies Act 1992

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of the Board

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

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

Auditors' responsibilities for the audit of the financial statements

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

Extent to which the audit is considered capable of detecting irregularities including fraud

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

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

Our audit focused on relevant risk areas and we reviewed compliance with laws and regulations through making relevant enquiries and corroboration by, for example, review of Board and Subcommittee meeting minutes, review of correspondence with and reports to the regulators, enquiries of management, review of reports by internal auditors and compliance consultants and review of the Society's Complaints and dis-satisfaction register.

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

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

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

A further description of our responsibilities for the audit of financial statements is located on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**. This forms part of our auditors' report.

Other matters which we are required to address

- **Auditor tenure -** We were appointed by the Board on 30 July 2021 to audit the financial statements for the year ended December 2021 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ending 31 December 2021 to 31 December 2022.
- **Independence -** We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
- **Non audit services -** We have not provided any non audit services prohibited by the FRC's Ethical Standard to the Society.
- **Consistency of the audit report with the additional report to the audit and risk committee -** Our audit opinion is consistent with the additional report to the audit and risk committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Royce Peeling Green Limited

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

Date: 28 March 2023

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

Income and Expenditure Account

	Note	2022	2021
		£	£
Technical account - long-term business			
Income			
Earned premiums	4	**17,010,020**	21,655,533
Investment and other income	5	**5,849,097**	8,770,409
Unrealised investment gains	6	**348,409**	7,486,351
Total income		**23,207,526**	37,912,293
Expenditure			
Claims incurred	7	**(11,946,008)**	(10,242,203)
Net operating expenses			
Acquisition expenses	8	**(987,175)**	(918,449)
Administrative expenses	8	**(1,087,135)**	(950,379)
Investment expenses and charges			
Investment management expenses	9	**(92,446)**	(307,677)
Taxation attributable to long-term business	10	**661,471**	(191,945)
Realised loss on disposal of investment properties		**(50,984)**	-
Unrealised losses on With Profits investments	13c	**(15,445,284)**	(1,875,913)
Unrealised losses on Unit Linked investments	13c	**(343,823)**	-
Change in long-term business provision	16	**(241,443)**	(18,845,759)
Transfer from / (to) fund for future appropriations	17	**6,325,301**	(4,579,968)
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 16(b).

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

Balance Sheet

	Note	2022	2021
		£	£
Assets			
Investments			
Land, buildings and commercial mortgages	13	**51,247,674**	48,084,973
Other financial investments	13	**92,709,745**	102,029,536
		143,957,419	150,114,509
Assets held to cover linked liabilities	13	**50,276,988**	49,873,222
Other assets			
Fixed assets	14	**612,140**	510,035
Cash at bank and in hand		**4,563,542**	4,865,595
Prepayments and accrued income			
Accrued interest and rent		**267,924**	323,706
Corporation tax including deferred tax		**457,099**	-
VAT		**-**	124,382
Other prepayments and accrued income		**956,419**	655,339
Total assets		**201,091,531**	206,466,788
Liabilities			
Technical provisions			
Long-term business provision	16	**(137,346,110)**	(136,808,250)
Technical provision for linked liabilities	16	**(43,248,011)**	(43,349,476)
Fund for future appropriations	17	**(17,849,505)**	(24,174,806)
Creditors			
Corporation tax including deferred tax		**-**	(197,055)
VAT		**(130,962)**	-
Social security		**(27,700)**	(27,282)
Accruals and deferred income	18	**(2,489,243)**	(1,909,919)
Total liabilities		**(201,091,531)**	(206,466,788)

The financial statements were approved by the Board on 28 March 2023

S Hindmarsh	**J Bellamy**	**P Galloway**	**D Webb**
Chairman	Chief Executive	Chief Operating Officer	Chief Commercial Officer

Notes to the financial statements

1. Accounting policies

(a) Basis of accounting

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

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

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

(b) Earned premiums

Earned premiums are accounted for on a cash basis. The difference between this and the accruals basis is considered to be immaterial.

(c) Claims paid

Claims and benefits are included in the financial statements on an accruals basis.

(d) Investment income

Investment income is accounted for on an accruals basis with property rents received in advance at the year-end being deferred to the subsequent period.

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

(e) Investments

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

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

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

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

Bank deposits represent variable rate deposits with interest paid annually.

Money market deposits represent fixed rate deposits with a maturity of 1 to 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

All assets excluding freehold property are included at cost less depreciation. Depreciation is provided at rates calculated to write off the cost over each assets expected useful life as follows:

Office furniture and equipment
15% per annum straight line

Motor vehicles
25% per annum reducing balance

Computer equipment
33.33% per annum straight line

Website development
33.33% per annum straight line

Software development
20% per annum straight line

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

(g) Impairment of assets

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

(h) Cash and cash equivalents

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

(i) Taxation

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

(j) Pension contributions

The Society operates a group personal pension scheme, available for the majority of employees. The scheme is invested within the Society's Group Personal Plan or in a separately earmarked fund with Aviva. The Society's contributions in respect of the year are shown in Note 11. None were outstanding at the year end.

(k) Cash flow statement

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

(l) Fund for future appropriations

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

(m) Long-term business provisions

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

(n) Deferred acquisition costs

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

(o) Functional currency

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

(p) Foreign exchange policy

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

2. Critical accounting estimates and judgements

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

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

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

(a) Key sources of estimation uncertainty

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

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

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

(ii) Valuation of financial instruments:

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

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

3. Capital statement

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

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

The Society is required to comply with Financial Reporting Standards 102 and 103. The main impact is to require detailed disclosure of the liabilities and financial strength of the Society. The capital statement illustrates the financial strength of the Society's life business and shows an analysis of the available capital resources calculated on a regulatory basis for the Society. A valuation was carried out at 31 December 2022 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.

	2022	2021
	£000	£000
Solvency capital requirement	**10,725**	14,426
Available capital resources	**17,850**	24,175
Less assets inadmissible for Solvency II	**(423)**	(348)
Total available capital resources	**17,427**	23,827
Solvency cover	**162%**	165%

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

	2022	2021
	£000	£000
Opening fund for future appropriation	**24,175**	19,595
Transfer to fund for future appropriation from Income and Expenditure account	**(6,325)**	4,580
Closing fund for future appropriation	**17,850**	24,175

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

(a) Basis of calculation of available capital resources

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

As shown on page 43, the Solvency Capital Requirement amounts to £10.73m and is determined in accordance with capital requirements as defined by Solvency II. As at 31 December 2022 the Society's capital resources were 162% of its capital requirements.

Approximately 34% of the fund excluding the Child Trust Fund business is held in property and approximately 33% is held in equities. These are sensitive to market movements in general. About 28% is held in bonds and gilts, and changing market conditions can affect bond values and future returns. Each bond also has its own individual credit risk. About 2% is held in the form of commercial mortgages. The remaining assets are invested in cash and deposits which are subject to default risk.

The valuation interest rate is set in reference to risk-free rates specified by the Prudential Regulation Authority ("PRA") as at 31 December 2022.

(b) Statutory valuation assumptions

- **Valuation interest rate**
  Solvency II risk free yield curve
- **Mortality**
  All applicable tables: 40% of ELT17 Males
- **Expenses**
  The allowance in the premium rates plus a specific reserve based on expected per policy costs and inflated in line with RPI-0.25%
- **Lapses**
  Realistic rates based on the actual experience for each product
- **Bonuses**
  A continuation of the currently declared interim rates
- **Tax**
  10% on interest and expenses for relevant taxable business

(c) Available capital sensitivity analysis

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

Variable	Change in variable	Change in available capital £'000s
Expense allowances	10%	(886)
Expense allowances	-10%	886
Change in rate of mortality (%ELT)	10%	(85)
Change in rate of mortality (%ELT)	-10%	91
Change in fixed interest yields	PRA shock up	737
Change in fixed interest yields	PRA shock down	(2,730)
Fall in fixed interest asset value	-10%	(1,059)
Fall in equity values	-10%	(1,757)
Fall in property values	-10%	(1,107)

Falls in fixed interest, equity and property values reduces the available capital considerably because the falls in asset values are not fully reflected in the liabilities due to the presence of policyholder guarantees. However, the biggest reduction in capital comes from a 10% fall in fixed interest yields which reduces capital by £2.73m. Falling yields increase the cost of policyholder guarantees considerably on the valuation basis.

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

(d) Analysis of change in capital resources

	2022	2021
	£000	£000
Total available capital resources at 1 January	**24,175**	19,595
Premiums less claims and expenses	**2,983**	9,544
Investment income less tax	**6,367**	8,222
Unrealised gains / (losses) on investments	**(15,097)**	5,659
Change in long-term business provision	**(579)**	(18,845)
Total available capital resources at 31 December	**17,849**	24,175

(e) Technical provision reconciliation

	2022	2021
	£000	£000
Technical provision at 1 January	**136,808**	123,910
Methodology change	**44**	-
Impact of data movements in reserves	**(2,047)**	(5,677)
Change in discount rates	**(1,002)**	(572)
Change in expenses and inflation	**2,611**	(171)
Change in lapse assumption	**332**	441
Change in mortality assumption	**211**	-
Change in investment returns	**(10,886)**	2,055
Change in bonus rates	**30**	-
New business and risk margin	**11,245**	16,822
Technical provision at 31 December	**137,346**	136,808

4. Earned premiums

	2022	2021
	£	£
Single premium income	**13,429,581**	18,057,239
Regular premium income	**3,580,439**	3,598,294
	17,010,020	21,655,533

5. Investment and other income

	2022	2021
	£	£
Rental income receivable	**3,105,082**	2,631,776
Income from listed investments	**1,650,683**	1,790,897
CTF Unit Linked management charges received	**697,590**	663,175
Mortgage interest receivable	**148,773**	62,058
Gain on the sale of UK Real Estate Fund	**133,115**	-
Interest due from property development installations	**60,099**	125,523
Bank interest receivable	**53,255**	6,061
Gain on the disposal of computer equipment	**500**	-
Gain on the sale of listed investments	**-**	3,341,220
Income from UK Real Estate Fund	**-**	121,282
Gain on the sale of investment properties	**-**	28,417
	5,849,097	8,770,409

6. Unrealised investment gains

	2022	2021
	£	£
Unrealised gain on revaluation of investment properties	**348,409**	221,296
Unrealised gain on listed investments: - Unit Linked	**-**	6,777,572
Unrealised gain on UK Real Estate Fund	**-**	487,483
	348,409	7,486,351

7. Claims incurred

	2022	2021
	£	£
ISA withdrawals	**5,524,790**	4,144,142
Endowments and matured policies	**3,999,172**	3,616,279
Death benefits	**1,392,423**	1,799,467
Surrendered policies	**873,036**	540,988
Income Bond withdrawals	**147,087**	130,034
Additional benefits	**9,500**	11,293
	11,946,008	10,242,203

8. Acquisition expenses

	2022	2021
	£	£
Salaries, including national insurance	**396,753**	335,848
Pension contributions	**29,920**	29,638
Internal auditors and compliance consultant's fees	**9,907**	6,875
Actuary's fees	**46,142**	38,254
Auditors' fees	**17,467**	16,784
Legal and professional fees	**13,059**	20,212
PRA / FCA Regulatory fees	**14,716**	14,490
Board fees and expenses	**35,031**	24,059
Computer running costs	**23,416**	21,436
Website and software development	**-**	265
Postage	**12,420**	11,507
Printing and stationery	**7,755**	6,001
Insurance	**10,363**	7,965
Motor vehicle and travel costs	**1,386**	242
Bank charges	**8,222**	6,882
Miscellaneous expenses	**1,954**	1,250
Charitable donations and gifts	**13,622**	18,501
Office expenses	**25,856**	22,970
Operating lease	**3,201**	-
Entertaining	**865**	1,381
Advertising and promotional costs	**145,582**	144,000
Personnel and training	**15,917**	7,890
Fees and commissions paid	**133,088**	162,023
Depreciation - fixtures and fittings	**1,697**	1,618
Depreciation - motor vehicles	**580**	-
Depreciation - computer equipment	**2,964**	4,624
Depreciation - website development	**6,318**	4,920
Depreciation - software development	**8,974**	8,814
	987,175	918,449

8. Administrative expenses

	2022	2021
	£	£
Salaries, including national insurance	**396,752**	335,848
Pension contributions	**29,919**	29,638
Internal auditors and compliance consultant's fees	**29,720**	20,627
Actuary's fees	**138,425**	114,762
Auditors' fees	**52,401**	50,351
Legal and professional fees	**39,176**	60,635
PRA / FCA Regulatory fees	**44,149**	43,471
Board fees and expenses	**105,094**	72,176
AGM expenses	**12,693**	11,216
Computer running costs	**47,543**	44,060
Postage	**25,217**	23,362
Printing and stationery	**15,745**	12,183
Insurance	**21,039**	16,172
Motor vehicle and travel costs	**462**	81
Subscriptions	**10,130**	9,523
Bank charges	**24,667**	20,645
Miscellaneous expenses	**3,966**	2,539
Office expenses	**25,855**	22,970
Operating lease	**6,498**	-
Entertaining	**865**	1,381
Personnel and training	**15,917**	7,890
Depreciation - fixtures and fittings	**5,093**	4,854
Depreciation - motor vehicles	**1,741**	-
Depreciation - computer equipment	**8,893**	13,871
Depreciation - website development	**18,955**	14,759
Depreciation - software development	**26,926**	26,442
Recoverable VAT on expenses	**(20,706)**	(9,077)
	1,087,135	950,379

9. Investment management expenses

	2022	2021
	£	£
Property related charges	**89,500**	102,314
Investment manager charges / commission*	**2,946**	205,363
	92,446	307,677

*Russell Investments management charge is embedded within the performance of the investment funds for 2022.

10. Taxation

	2022	2021
	£	£
Current Tax:		
UK corporation tax	**-**	38,805
UK corporation tax re prior years	**(29,834)**	(27,385)
Movement in deferred tax	**(631,637)**	180,525
Taxation attributable to long-term business	**(661,471)**	191,945

The balance sheet includes a deferred tax asset of £457,099 (2021: £197,055 liability). This principally comprises taxable losses available for relief against the profits of future periods (2021: taxable gains taxed in future periods).

11. Employee costs

		2022	2021
		£	£
Salaries and wages		**711,857**	609,793
Social security costs		**81,648**	61,903
Pension costs		**59,839**	59,276
		853,344	730,972
Average number of employees:	Executive	**3**	3
	Management	**3**	1
	Administration	**13**	15
		19	19

12. Board of Directors emoluments

		2022	2021
		£	£
Remuneration and attendance fees		**396,791**	332,250
Society pension contributions to defined contribution schemes		**15,666**	18,300
Bonuses		**32,570**	22,545
Expenses		**2,401**	1,167
Taxable benefits		**1,128**	1,128
Total emoluments		**448,556**	375,390
Chairman		**21,954**	15,013
Highest paid member:	Salary	**132,425**	117,775
	Pension contributions	**7,020**	10,350
	Taxable benefits	**376**	376

C Marsh joined the Board on 18 March 2022, increasing the number of Board members to 12.

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

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

	2022	2021
	No.	No.
£0 - £25,000	**10**	8
£25,001 - £100,000	**2**	2
£100,001 - £140,000	**1**	1

13. Investments

	Note	2022	2021
		£	£
Summary			
Measured at fair value Land and buildings	(a)	**48,775,424**	45,612,723
Measured at cost Mortgages on land and buildings	(b)	**2,472,250**	2,472,250
		51,247,674	48,084,973
Measured at fair value Listed & OEIC Investments (excluding CTF)	(c)	**86,666,804**	97,786,046
Measured at cost Bank and money market deposits		**6,042,941**	4,243,490
		92,709,745	102,029,536
Measured at fair value Unit linked assets - CTF	(c)	**50,276,988**	49,873,222
		194,234,407	199,987,731

13(a). Land and buildings

	Investment properties
	£
Cost or valuation Balance as at 1 January 2022	**45,612,723**
Additions	**3,489,292**
Disposals	**(675,000)**
Revaluation in year	**348,409**
Balance as at 31 December 2022	**48,775,424**

The freehold and leasehold properties were revalued by Mr Chris Stott MRICS, Director at Brownill Vickers Limited. Mr Chris Stott MRICS is a fully qualified chartered surveyor and an RICS Registered Valuer. A formal valuation took place in December 2021 on an open market basis. This was updated by a desk-top valuation in December 2022 with the property valuations being adjusted accordingly.

13(b). Mortgages on land and buildings

	Commercial
	£
Balance as at 1 January 2022	**2,472,250**
Advances during the year	**-**
Repaid during the year	**-**
Balance as at 31 December 2022	**2,472,250**

13(c). Investments at valuation

	2022	2021
	£	£
Sterling strategic bond fund	**30,884,749**	41,294,875
Multi asset growth strategy fund	**27,797,331**	25,460,094
UK equity fund	**22,974,453**	20,720,172
Global low carbon equity fund	**5,010,271**	5,136,947
UK real estate fund	**-**	5,173,958
	86,666,804	97,786,046
Child Trust Fund investments	**50,276,988**	49,873,222
Balances as at 31 December	**136,943,792**	147,659,268

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

	Valuation as at 01.01.22	Purchases	Sales	Realised gains / (losses)	Unrealised gains / (losses)	Valuation as at 31.12.22
	£	£	£	£	£	£
Sterling strategic bond fund	41,294,875	1,500,000	(2,000,000)	-	(9,910,126)	30,884,749
Multi asset growth fund	25,460,094	5,500,000	-	-	(3,162,763)	27,797,331
UK equity fund	20,720,172	5,420,000	(1,300,000)	-	(1,865,719)	22,974,453
Global low carbon equity fund	5,136,947	380,000	-	-	(506,676)	5,010,271
UK RE fund	5,173,958	-	(5,307,073)	133,115	-	-
	97,786,046	**12,800,000**	**(8,607,073)**	**133,115**	**(15,445,284)**	**86,666,804**
Unit linked	**49,873,222**	50,000	-	-	353,766*	**50,276,988**
	147,659,268	**12,850,000**	**(8,607,073)**	**133,115**	**(15,091,518)**	**136,943,792**

*Includes CTF Unit Linked management charges received – see note 5

Fair value

The principal financial assets held at 31 December 2022, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Directly held investment properties	-	-	48,775	**48,775**
Debt securities	37,404	-	-	**37,614**
Equity securities	43,072	-	-	**43,072**
Real estate (exc. direct property)	-	1,335	-	**1,335**

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

14. Fixed assets - summary

	Note	Cost	Depreciation	Value 31/12/2022	Value 31/12/2021
		£	£	£	£
Tangible	(a)	513,552	(139,402)	374,150	336,083
Intangible	(b)	401,772	(163,782)	237,990	173,952
Total		**915,324**	**(303,184)**	**612,140**	**510,035**

14(a). Tangible fixed assets

	Land & buildings	Fixtures & fittings	Computer equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 01/01/2022	300,000	93,389	99,723	-	493,112
Additions	-	36,035	718	22,282	59,035
Disposals	-	(12,110)	(26,485)	-	(38,595)
Revaluation	-	-	-	-	-
At 31/12/2022	300,000	117,314	73,956	22,282	513,552
Depreciation					
At 01/01/2022	-	80,554	76,475	-	157,029
Disposals	-	(12,110)	(26,485)	-	(38,595)
Charge for year	-	6,790	11,857	2,321	20,968
At 31/12/2022	-	75,234	61,847	2,321	139,402
Net book value					
At 31/12/2022	**300,000**	**42,080**	**12,109**	**19,961**	**374,150**
At 31/12/2021	300,000	12,835	23,248	-	336,083

The freehold property has been revalued in accordance with the details in Note 13(a).

14(b). Intangible fixed assets

	Website Development	Software Development	Total
	£	£	£
Cost			
At 01/01/2022	97,058	179,503	276,561
Additions	125,211	-	125,211
Disposals	-	-	-
Revaluation	-	-	-
At 31/12/2022	222,269	179,503	401,772
Depreciation			
At 01/01/2022	40,153	62,456	102,609
Disposals	-	-	-
Charge for year	25,273	35,900	61,173
At 31/12/2022	65,426	98,356	163,782
Net book value			
At 31/12/2022	**156,843**	**81,147**	**237,990**
At 31/12/2021	56,905	117,047	173,952

15. Capital commitments

At 31 December the Society had capital commitments as follows:

	2022	2021
	£	£
Contracted for, but not provided for in the financial statements	-	16,835

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

	With-Profits	Other	2022 Total	2021 Total
	£	£	£	£
At 1 January	137,038,950	(230,700)	**136,808,250**	123,909,780
Change in long-term business provision	552,540	(14,680)	**537,860**	12,898,470
At 31 December	**137,591,490**	**(245,380)**	**137,346,110**	136,808,250

16(b). Technical provision for Unit Linked Liabilities

	2022 Total	2021 Total
	£	£
At 1 January	**43,349,476**	37,419,825
Earned premiums	**627,066**	608,894
Maturities / transfers to other providers	**(432,114)**	(626,532)
Change in provision	**(296,417)**	5,947,289
At 31 December	**43,248,011**	43,349,476

16(c). Total change in provisions

	2022	2021
	£	£
Total change in provisions	**241,443**	18,845,759

17. Fund for future appropriations

	2022	2021
	£	£
At 1 January	**24,174,806**	19,594,838
Surplus / (deficit) for the year	**(6,325,301)**	4,579,968
At 31 December	**17,849,505**	24,174,806

18. Accruals and deferred income

	2022	2021
	£	£
Lapsed / matured / death policy claims outstanding	**1,657,755**	1,181,594
Deferred rental income	**522,538**	431,434
Administrative expenses	**284,950**	272,641
Rent deposits held on account	**24,000**	24,250
	2,489,243	1,909,919

19. Actuarial valuation and technical provision

An Actuarial Report on the assets and liabilities of the Society was last prepared as at 31 December 2022 and a copy of this Report may be inspected at the Registered Office of the Society.

20. Related party transactions

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

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

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

The Chief Actuary and With-profits Actuary is Ms. Cara Spinks FIA, Consultant Actuary at OAC PLC ("OAC"). The Society has requested Ms. Spinks to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Ms. Spinks is not a member of the Society and has no other financial or pecuniary interests in the Society, with the exception of fees paid to OAC PLC for professional services, which amounted to £184,567 in 2022 (2021: £153,015).

Society Information

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

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

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

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

Glossary

Abbreviations

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

Notes

Sheffield Mutual
Est. 1892

MIX
Paper from responsible sources
FSC® C019447
FSC www.fsc.org

www.sheffieldmutual.com

enquiries@sheffieldmutual.com

Call our team on **01226 741 000**
Monday - Friday 9am - 5pm

Calls may be monitored and recorded for your protection

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May 2023