

## **Board's Report to With-Profits Policyholders for the year 2024**

### **1. Introduction**

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

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

This report covers the financial year 1 January 2024 to 31 December 2024. Version 11 of the PPFM applied from 24 March 2023 until 22 March 2024 when Version 12 was approved. Version 12 applied for the remainder of 2024.

### **2. Compliance with the PPFM**

The Board of Directors (the "Board") confirms that it has complied with its obligations relating to the PPFM throughout 2024. In particular, it confirms that:

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

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

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

### **3. Governance**

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

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

The WPA throughout 2024 was Cara Spinks of Broadstone Regulatory & Risk Advisory Limited. The WPA advises the Board on the key aspects of the discretion to be exercised in respect of the Society's with-profit business. All of the recommendations made by the WPA are reviewed by the WPAA who have provided comments on compliance with the PPFM and the fair treatment of with-profits policyholders throughout 2024.

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

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

##### **(a) Amounts Payable and Bonus Rates**

The Society aims to pay 100% of a policy's asset share on claim. However, asset shares can vary and the effect of smoothing from year to year means that, on maturity, the Society aims to pay an amount that is in the range 80% to 120% of asset share. During 2024, 99% of maturity payouts were between 80% to 120% of asset share and the average payout ratio of all policies maturing was 98%. The majority of maturing policies falling outside asset share had payout ratios that were above the target range.

On surrender, the Society aims to pay an amount that is within the range 75% to 125% of asset share (based on specimen policy calculations). During 2024 97% of surrender values were within the target range of 75% to 125%.

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

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

The methodologies used to calculate amounts payable and bonus rates have been consistent with the PPFM during 2024.

##### **(b) Bonus Policy and Smoothing**

The Society's normal practice is to review annual bonus rates on all business once a year and, at the same time, to consider whether a final bonus or MVR should be declared on any contracts.

A full review took place November 2023, and this set the provisional bonus rates for the year ended 31 December 2023 and interim rates for 2024. At the Board meeting held in March 2024, the Board agreed to declare the November recommendations and maintain the same interim rates for 2024.

A further review was carried out in July 2024 after the half year valuation, which increased the interim rates for 2024 by 0.25% on all the products except bonds for which the rates were increased by 0.50%.

Another full review was carried out in November 2024, which made recommendations for the declared annual bonus rates for 2024 and interim rates for 2025. Broadly the recommendations were to declare 2024 interim annual bonus rates and to maintain the same rates for the 2025 interim rates. At the Board meeting held in March 2025 the Board declared the 2024 annual bonus rates and chose to increase the 2025 interim annual bonus rates for all products by 0.25%.

The Society has no formal smoothing policy but our aim is for payouts from year to year not to vary by more than 10% in normal circumstances. One exception to this is where a change of premium table leads to a change in payout.

During 2013 the Society launched a new series of the Tax-Exempt Savings and Regular Savings Plans, which have a lower guaranteed sum assured and higher management contributions. To maintain fairness the Board has maintained slightly higher annual bonus rates for these plans, compared to the earlier series.

During 2024 the Society launched a new issue of the Investment Bond, which has a higher guaranteed sum assured. To maintain fairness the Board has maintained slightly lower annual bonus rates for these plans, compared to the previous issue.

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

#### (c) Investment Strategy

The investment strategy of the fund and asset mix according to class of business is reviewed each year and this is reflected in the Society's Investment Policy. The Finance and Investments Committee reviews detailed reports of the assets held by the fund each month and uses this information to monitor performance and compliance with the investment mandates of the fund. Investments have been managed according to the Society's Investment Policy throughout 2024 and further details on transactions and asset mix can be found in the 2024 Report & Accounts.

#### (d) Charges and Expenses

The Society allocates expenses to policy asset shares according to the amounts assumed in the premium tables, with the balance of expenses being met by emerging surplus or free reserves. From 2013 the Board decided that a proportion of the surplus emerging from the expense charges arising from the Child Trust Fund ("CTF") would be used to cover the Society's renewal costs in excess of the allowance in the premium tables. This practice continued for 2024 and is expected to be maintained on an annual basis, taking into account the run-off of the now maturing CTF policies. The premium table expenses, which are also set out in the product key information documents, are incorporated in the specimen asset share calculations. Fund management charges are set against investment income. The Society's allocation of expenses in 2024 is consistent with the PPFM.

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

(e) Exposure to Business Risk

The Society's risk management process is set out in the 2024 Report and Accounts. As a Solvency UK insurer the Society completes an Own Risk and Solvency Assessment ("ORSA") in accordance with regulatory requirements. The purpose of the ORSA is to enable the Board to assess, monitor and manage the Society's risks relative to the medium-term business plan and to understand how much current and future capital is necessary to cover those risks having considered other mitigating factors. The Society has no exposure to business risk outside the normal risks associated with the ongoing transaction of insurance business.

(f) Management of Mutual Capital

The Society maintains a level of free assets which enables it to invest in a wide range of investments and to fund the writing of new business. A target range is set for the free asset and solvency ratios and if the free assets fall outside these ranges then remedial action would be taken. The Society can confirm that the management of the mutual capital has taken place in accordance with the requirements of the PPFM and that the free asset and solvency ratios were within the target ranges throughout 2024.

(g) Volume of New Business

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

(h) Communication with Policyholders

The Society aims to meet the information needs of policyholders by ensuring that communications are clear, fair and not misleading, and that they have been consistent with the PPFM. Under Consumer Duty, the Society also aims to deliver good outcomes to its members. Bonus statements in relation to 2024 were sent to all with-profits policyholders in April 2025 and a Member Newsletter was sent along with the Notice of AGM in May 2025. The Society's SFCR and Report and Accounts are available on the Society's website. Details of the Society's investment strategy and asset mix were outlined in the Summary Report & Accounts and Newsletter.

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

**16 May 2025**