

Report & accounts

2020





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# Chairman's Welcome



## **A warm welcome to our strategic report for the year 2020.**

This year I would like to begin my remarks by saying "Thank you" to our senior executives, our employees and our Committee members for all they have done to produce a satisfactory outcome for this year. We have had to adapt very quickly to the challenges posed during the last 12 months. Our success in dealing with the challenges is due in no small measure to the hard work, flexibility, attention to detail and sense of perspective shown by our team and by the Committee.

2020 saw total assets increase to £183m. We wrote 1,927 new policies during the year and increased our membership by 929. Our total membership (excluding CTF) has now increased to 12,258. Members will note that we have been able to declare our interim bonus rates as final bonuses for 2020. I regard this as a satisfactory outcome for the year.

I would describe the investment circumstances of the year 2020 as challenging. Some areas of investment including emerging markets and special situations have performed extremely well. Other areas, including our commercial property portfolio, have necessarily required attention. Overall, we have a diverse investment portfolio which has withstood the stress test of 2020.

This coming year there will be a focus on improving the environmental and ethical stance of the way we do business. There is an increasing awareness of a need for us to develop our strategy within Environmental, Social and Governance (ESG) considerations. Both Committee and executives will be involved in quite an extensive training programme. We will be reviewing our policies and procedures and we will be looking at our investment portfolio and our governance.

Our new website, which has been in the process of development during 2020, has now gone live. We still have work to do and, in particular, we plan to make improvements to the member portal as soon as we're able.

2020 was the year when Child Trust Fund (CTF) policies began to mature, with maturities steadily increasing over the next few years. The Society has been preparing for these maturities for some time. Sheffield Mutual have demonstrated that we can continue to provide good returns on monies invested with us so I do hope that some CTF members will consider reinvesting with us when their policies mature.

***“Our success in dealing with the challenges is due in no small measure to the hard work, flexibility, attention to detail and sense of perspective shown by our team and by the Committee.”***

Our charity award for 2020 produced an excellent response from all our members. There were three winners in total but the overall winner this year was Paces Sheffield who are a charity supporting families, children and adults with neurological conditions. The funds will be used towards building a new school and centre and will drive a significant increase in the number of families they will be able to assist. During 2021 we will continue with the charity award scheme to help more locally based charities.

There are some governance issues I would like to mention. I am pleased to confirm that on the 1st January 2021 Sheffield Mutual became an incorporated society following the resolutions passed at last year's AGM. I can also report that we have strengthened our Committee by recruiting a new Non-Executive member, Adrian Stone. Adrian is a qualified accountant, previously working at executive level at one of the big four accountancy firms. He brings a wealth of audit experience to the Committee. I am also delighted to report that Dawn Gregory has been promoted to the Committee as Chief Commercial Officer. Dawn commenced employment with Sheffield Mutual over 12 years ago and was previously Head of Business Development and Marketing.

Thus, we have two new Committee appointments: one from outside the Society and one from within. There is an ever-increasing focus by members and by the regulator on the composition and performance of the Committee. The appointments of both Dawn and Adrian demonstrate that we fully acknowledge this; their experience fits well with the skills background and experience of our existing members and adds to the strengths we already have on the 'Board of Directors', as the Committee has been renamed, further to incorporation.

We are now looking forward to 2021. You, our members, remain central to our work and we will continue to put you first in all our decision making.



**Stephen Hindmarsh**  
Chairman

# Chief Executive's Review



I would prefer not to reference Covid-19 within this review, due to the unrelenting reports we endured throughout 2020 and continue to receive in the new year. Unfortunately, referring to the impact of the virus is unavoidable. Business expectations were revised part way through the year to take account of the effect of the pandemic during traditionally the Society's busiest period of between April and June. Brexit however, what we originally believed would dominate the focus of media attention in 2020, fell under the radar until what seemed like days before the deadline. The year's events certainly had a substantial effect on global investment markets, which in the context of the devastating impact the virus has had on people's lives and livelihoods, can be considered secondary.

Given the events of the year it is easy to concentrate on the negative, but we have seen excellent resilience from our team at the Society and observed many positive outcomes. The Society is now able to operate efficiently away from the office after investment in our IT and network. We did not rely on the furlough scheme as we needed the support of every member of our team to continue to provide a first-rate service. At a time when we saw larger organisations reduce their focus on customer service, we thought it essential that we continued to be available to our members.

Despite 2020 being a particularly difficult year, I am delighted to confirm that Sheffield Mutual experienced very healthy levels of business and asset growth:

- ✔ Total assets including the Child Trust Fund (CTF) increased by 5% to a record £183 million
- ✔ Assets excluding the CTF increased by 10% to £141 million
- ✔ Traditional membership increased by 3% to 12,258
- ✔ Total number of policies increased by 5% to 17,379
- ✔ Including the CTF we now have 80,456 policies and accounts

## Members and Policies

Many of our members were understandably concerned about their investments during the first lockdown. To provide reassurance we therefore kept all methods of communication open and strived to maintain our service standards. We also offered members more flexibility in terms of catching up with premium payments where their employment circumstances had been affected.

The Society achieved growth within its membership base and the total number of active policies in 2020. This was again driven by new premiums and top-ups to our Investment ISA, which provides investors with a potentially higher return than a Cash ISA, but with less risk than a conventional Stocks & Shares ISA.

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

Year Ending	Number of Members (Excl CTF)	Number of Policies (Excl CTF)
31.12.18	11,635	15,604
31.12.19	11,941	16,518
31.12.20	12,258	17,379

Year Ending	Number of New Members (Excl CTF)	Number of New Policies (Excl CTF)
31.12.18	833	1,614
31.12.19	907	1,987
31.12.20	929	1,927

The number of Child Trust Fund accounts fell slightly due to the product no longer being available for new business and maturities commencing from September 2020:

Year Ending	Number of CTF Accounts
31.12.18	63,349
31.12.19	63,223
31.12.20	63,077

## Premium Income and Assets

Whilst our originally budgeted premium income levels were revised downwards, we still achieved an excellent £17.8 million. Just as the pandemic hit the Society was entering ISA season. Investors became naturally cautious of the investment landscape and held off from investing lump sums, with many providers reducing their bonus / interest rates. The Society's rates remained stable and highly competitive, which continued to attract investment, particularly later in the year.

Subscriptions and external transfers to the Investment ISA and Junior ISA generated circa £9.9 million (56%) of the total. Our Investment Bond and Income Bond also performed strongly, totalling £5.2 million payments received for the year and making up around 29% of premium income for 2020.

Year Ending	Premium Income (Excl CTF)	Assets (Excl CTF)
	£'000	£'m
31.12.18	16,800	105.7
31.12.19	20,737	128.2
31.12.20	17,772	140.7

Year Ending	CTF Premium Income	Total Assets (Incl CTF)
	£'000	£'m
31.12.18	492	144.6
31.12.19	511	175.0
31.12.20	484	183.0

Contributions to our regular savings products, including the Tax-Exempt Savings Plan, amounted to £2.6 million and, therefore, accounted for around 14% of the total. We remain one of the top performers in the with-profits regular premium pure endowment league tables over 10, 20 and 25 years.

Another exceptional area of growth for the Society has been in terms of our asset base, which has increased by 5% to a record £183 million. Excluding the CTF, the Society's assets increased by 10% to £141 million.

As stated above, record levels of premium income have driven up the asset base, assisted by the investment growth over the year.

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

## Policy Returns and Bonuses

The Committee declared annual policy bonuses worth in excess of £2.2 million for members in 2020 and all with-profits bond, ISA and endowment policies had their interim bonus rates declared in full. The Committee also maintained final bonus rates on maturing regular premium endowments.

## Asset Mix

The Committee continued to increase the size of the fixed interest portfolio and diversify our investment mix further overseas. The percentage held in equities was increased primarily due to this increased exposure to overseas markets. The proportion held in property was further reduced in order to improve the overall balance of the fund.

The table below shows the asset split of the Society's investment fund at the end of 2020, with previous years' figures for comparison purposes. This table excludes CTF investments, which are part of a separately managed Unit Linked fund.

	2020	2019	2018
	%	%	%
<b>Property</b>	34.94	37.09	41.59
<b>Mortgages on land and buildings</b>	0.74	0.80	0.98
<b>Listed investments:</b>			
- equities	31.18	29.62	27.15
- fixed interest	28.75	28.15	25.43
- alternative assets	2.83	2.24	2.33
<b>Cash (excluding current account funds)</b>	1.56	2.10	2.52
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

## Investments

During the initial months of the pandemic, global markets suffered significant dips, with the UK stock market being one of the hardest hit. Many commentators initially estimated a 'V shaped' bounce but this optimism soon dwindled after a further lockdown and the tiered approach to tackling Covid-19 was announced. However, in the fourth quarter equity markets rallied, helped by the US election result and positive news on the roll out of vaccines. The close of 2020 saw the FTSE 100 recover somewhat from earlier in the year to 6,460.52, which was still 14.3% lower than 12 months earlier (7,542.44).

The Society's UK listed investments are managed professionally by Investec Wealth & Investment Ltd in accordance with a Committee approved mandate. The Society invested new money of £3.6 million through Investec in 2020 and after adjusting for the new money added during the year the portfolio, now just under £58 million, produced a total annual return after charges (including income) of 0.66%.

We continued to increase investment overseas to mitigate the risk of our exposure to UK markets. An additional £1.6m was invested in the Fidelity Special Situations Fund (mainly US markets) and £0.6m in the Emerging Markets Fund, enabling the Society to take advantage of the attractive returns seen in 2020. The pandemic seemed to serve as a significant catalyst for digitalisation, particularly fintech and ecommerce, which was the main driver for the strong performance in US equities, with 27% of the market exposed to the Information and Technology sector. The Society also invested a further £1.25m into the Fidelity Strategic Bond Fund, which invests globally across developed and emerging government and corporate bonds.

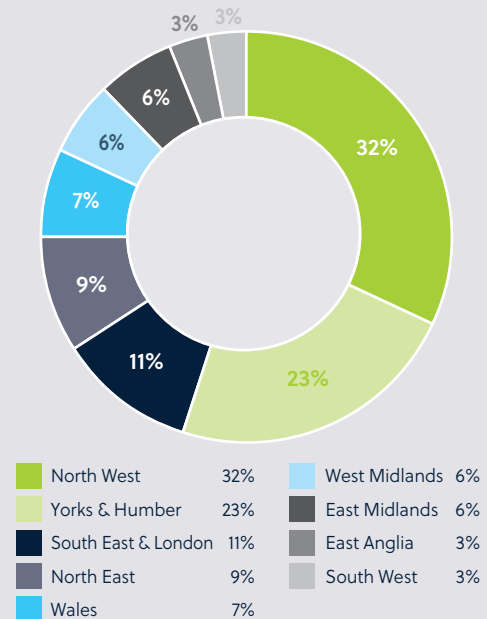
Commercial property, and more specifically high street retail, saw some casualties during 2020 as a result of the forced closures. Over 50 retail businesses entered a CVA, affecting over 4,000 stores. Overall, however, quality property investments do continue to remain a safe haven for capital preservation, and demand for prime, secure investments continues to be witnessed, although the pace of recovery will be dictated, to a large extent, by the effects of the speed at which a vaccine is rolled out to the nation. Your Committee will continue to make investment decisions for the long-term by focusing on quality, balance and diversity.

During 2020 the Society purchased one commercial property in Leeds and made several instalments on the development of multi-tenanted units in Spalding. The Society owns 44 geographically diversified commercial properties, generating stable rental yields, with a total value of circa £41.4 million. As can be seen by the charts we hold properties throughout the country, with a higher concentration in closer regions. It is also worth highlighting that vacancy is extremely low at 2% of the portfolio value.

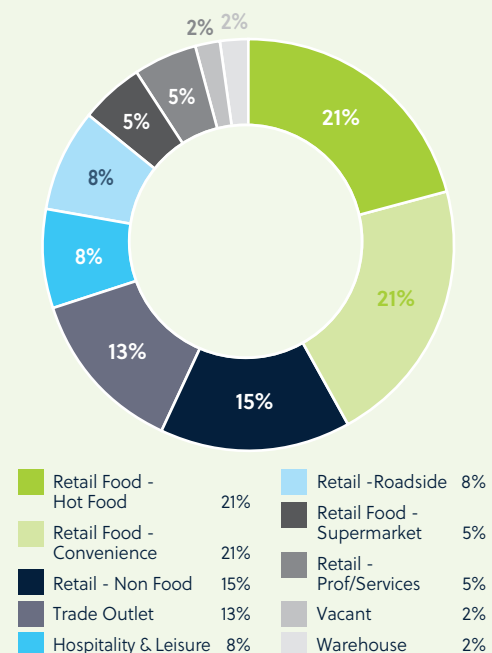
The Society's available capital decreased from £20.339 million to £19.158 million and remains six times the required minimum capital requirement; thereby maintaining a strong financial base.

The Society's investment income was £4.83 million and after taking account of the unrealised gains the overall return on the non-CTF assets for the year was 3.73%.

### % of property portfolio value within each region



### % of property portfolio value within each sector





## Covid-19

The outbreak of Covid-19 during the first few months of 2020 caused significant disruption to businesses across the globe. During the initial months of the pandemic we were able to weather the slump in investment markets by implementing a market value reduction (MVR) to protect the interests of our existing members. We also carry out regular scenario and stress testing for circumstances such as the pandemic to ensure the business has sufficient liquidity and solvency. Through regular meetings with our actuary, Committee and Executive Team we were able to phase out the MVR as markets improved and the first lockdown eased. Operationally, the majority of staff were able to work from home, with a skeleton team operating from the office to deal with incoming and outgoing post. We revised our business targets half-way through the year and we did see those targets beaten after receiving strong levels of policy numbers towards the end of the year.

## Wider Business Impact

We acknowledge the magnitude of the challenge ahead in tackling climate change. Businesses will however need to continually adapt to ensure that their carbon footprint is reduced and in 2021 we will be implementing new initiatives and making improvements to policies. The business we carry out on a daily basis no doubt has a wider impact on society and our assessment of this continues to evolve as more meaningful ESG data and metrics become available. Executive bonus schemes have already been revised to ensure that there are clear targets assessing the Society's equity holdings against a number of ESG measures using information available from organisations such as Sustainalytics (the largest independent providers of ESG research and ratings).

With regards to investment management, the Society over many years has aimed not to invest knowingly or directly in industries relating to armaments, tobacco, gambling or pornography. We have also now disinvested from our direct equity holdings in the oil and gas sector. The Society's ESG score (per the Sustainalytics independent rating system which considers many factors, such as carbon footprint, human rights, resource use and corporate governance) is targeted to be maintained at least 5% below the UK equity market average score. The Society also aims not to hold any individual equity holdings with a 'severe' ESG risk score.

It is clear that there is no one size fits all approach - Our Chief Operating Officer monitors the associated risks and regularly presents ideas to proactively address climate change whilst not negatively affecting the service we provide. We also believe that as a mutual we should be going further than the basic expectations.

## Summary

I'm extremely pleased by the efforts of the Sheffield Mutual Team in providing an excellent service to our members, all whilst working throughout the social restrictions and the personal concerns the virus had created for everyone. A huge thank you to our exceptional team. I would also like to thank the Committee for their continued support and encouragement for me personally and the useful guidance offered throughout the year.

I would finally like to thank our loyal members. Our members support throughout the year has been demonstrated by the outstanding reviews we've received and zero complaints put forward, during a period when resources have certainly been stretched. Through the difficulties of 2020 we have continued to grow as a business and invested in areas to improve the service offered to our members, with further recruitment planned. We will continue to listen to your feedback and strive to provide a personalised service.



**Jamie Bellamy**  
Chief Executive

**“We acknowledge the magnitude of the challenge ahead in tackling climate change.”**

# Strategic Management

## Business Model

The Society's mission statement is: "To provide a friendly alternative to bank and building society savings accounts; by delivering greater potential returns through transparent and high performing products, an excellent and personal member service and by being one of the most trusted and secure friendly societies in the UK."

The Society's vision is: "To be the UK's most trusted and member focussed independent mutual friendly society."

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

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

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 surplus profit to members by way of policy bonuses.

The Society's key strategic priorities are as follows:

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

## Principal Risks and Uncertainties

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

## Future Prospects and Viability Statement

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

## Future Strategy and Objectives

The Committee's medium term strategy is to grow the Society's business organically at a controlled rate and, in addition to developing our various channels of distribution, we will continue to remain vigilant for new product areas which may complement the Society's core activities. The pandemic curtailed our original targets to a certain extent, but we have adapted to the circumstances and the Society is well positioned with strong levels of solvency.

We are attracting over two thirds of our new business direct from members of the public through advertising campaigns, online marketing and recommendations. An ever increasing number of new policies are applied for via our website ([www.sheffieldmutual.com](http://www.sheffieldmutual.com)), which was rebuilt and completed in December. We continue to invest in our IT infrastructure, with more online member facilities to be introduced in the coming years.

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

In line with our history, heritage and ethical values, Sheffield Mutual is committed to helping good causes in the course of doing business. During 2020 we donated more than £10,000 to various charities and good causes and we have made a commitment to maintain our support in 2021.

In 2021 we will be implementing initiatives and policies, in line with recommendations made by the Climate Financial Risk Forum. The evolution of our stance on ESG continues to take place internally but will have more of an outward focus in 2021.

On 1 January 2021 the Society became an incorporated organisation; incorporation does not mean that the Society has lost its mutual status but allows for a more updated approach to the running of the business. The main difference being that Trustees are no longer required to own property on behalf of the Society; the Society itself can now directly own property. Incorporation does not alter the fact that the Society is a successful independent friendly society, well run, financially strong, ethically minded and with good prospects for growth.

***“The Committee's medium term strategy is to grow the Society's business organically at a controlled rate.”***

# Committee Governance

## Committee of Management

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

<b>Mrs J Barber</b>	Committee / Vice Chairman & Trustee
<b>Mr J Bellamy</b>	Committee / Chief Executive
<b>Mr S Birch</b>	Committee
<b>Mr A Burdin</b>	Committee
<b>Mr P Galloway</b>	Committee / Chief Operating Officer
<b>Mr S Hindmarsh</b>	Committee / Chairman
<b>Mr S Plant-Hately</b>	Committee / Chair of Audit and Risk
<b>Mr N Spawforth</b>	Committee / Trustee
<b>Mr A Stone</b>	Committee (co-opted from 25 Sep)
<b>Mr A Thorpe</b>	Committee

As discussed within the Strategic Report above, from 1 January 2021 the Committee of Management became 'the Board of Directors', in line with the Society's revised rules upon incorporation. As the Annual Report and Accounts deal with the year ended 31 December 2020, and therefore prior to incorporation, we will refer to the 'Committee' unless looking to post year end events.

In 2020 the Committee comprised of the non-executive Chairman, two Trustees, six other non-executive members (one joining in September 20) and two executive members (Chief Executive and Chief Operating Officer). Biographies for each of these are shown on pages 22-23 and the Committee believes that the balance of skills and experience of the members is appropriate to the current requirements of the business.

The Committee determines the strategic direction of the Society and reviews its operating and financial position. The Committee met on nine occasions during 2020 and there is a schedule of regular reports and information, which they consider at the meetings and which is agreed annually. Reports are provided to the Committee in advance of each meeting. The Chief Executive is responsible for carrying out the agreed strategy and the day to day running of the Society and there is a clear division of responsibilities between the roles of the Chief Executive and Chairman.

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

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

The Chairman is responsible for ensuring that members of the Committee receive accurate, timely and clear information in order to discharge their duties effectively and the Society's Secretary is responsible for ensuring good information flows within the Committee and between senior management and the Committee. The roles of Chief Executive and Secretary should ideally be split, but the Committee is confident that it receives good information flows, guidance and support, and believes that the cost of employing a separate Secretary would not at this stage be an appropriate use of funds. The Committee and Sub-Committee can also obtain assistance from the Chief Operating Officer and other employees if required.

## Responsibilities of the Committee of Management

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

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

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

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

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

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

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

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

## Finance & Investments Sub-Committee

The Society has a Finance & Investments Sub-Committee which meets on at least 11 occasions during the year and consists of the two Trustees, the Society's Chairman and one other Non-Executive Committee member by rotation, plus the Chief Executive and Chief Operating Officer. The Sub-Committee is not chaired by the Society's Chairman and the position of Sub-Committee Chairman is rotated between the Trustees on a bi-annual basis. 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

This Sub-Committee monitors and acts as the risk management function and provides oversight of the Society's financial reporting process and internal controls. It comprises of at least four non-executive members (three prior to A Stone joining the Committee) and meets on at least four occasions during the year. Executives attend by invite 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

## Risk Management

The oversight and direction of the Committee remains central to risk management and it ensures, through the Audit & Risk Committee, that appropriate policies, procedures and processes are implemented across the business to control and monitor both the actual and potential risk exposures which arise from the Society's operations. The Committee ensures exposed risks are aligned to the Society's risk appetite and that any unacceptable risk exposures are identified and either terminated or where appropriate mitigated.

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

## Internal Controls

The Society has an established framework of internal controls for the management of risk within the business and to safeguard the interests of members. The Executive Team are proactive in monitoring the efficiency of internal controls and the Committee reviews the effectiveness of its internal control systems throughout the year by receiving reports from an external compliance consultant and our internal auditors, RSM UK Group LLP. 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 Committee approved programme designed to evaluate and improve the effectiveness of risk management, controls and governance processes. Their reports are considered by the full Committee and action taken where appropriate.

## External Audit

The current external auditors, BHP LLP, have acted in this capacity since 2004 and were successful in the retender process in 2017. They provide no significant non-audit services which would affect their objectivity and independence.

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

## With-Profits Governance

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

## Report of the Committee to With-Profits Policyholders

The Committee is required to produce a report to all with-profits policyholders explaining how it has managed its with-profits business, complied with the PPFM and how the Committee has exercised discretion in its decisions. This report will be available from the Society's website before 30 June 2021.

## Going Concern

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

## Operating Powers

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

## Solvency

The Society had the required margin of solvency as prescribed in regulations made by the Prudential Regulation Authority for its relevant classes of business at 31 December 2020.

## Complaints by Members

The Society has a documented complaints procedure and aims to treat its members fairly. There were no reportable complaints in 2020.

## Attendance at Meetings

	Committee		FIC*		ARC†	
	Number of Meetings	Attended	Number of Meetings	Attended	Number of Meetings	Attended
<b>J Barber</b>	9	8	11	10	-	-
<b>J Bellamy</b>	9	9	11	11	4	4
<b>S Birch</b>	9	9	7	7	4	3
<b>A Burdin</b>	9	9	7	7	4	4
<b>P Galloway</b>	9	9	11	11	4	4
<b>S Hindmarsh</b>	9	9	11	11	-	-
<b>S Plant-Hately</b>	9	9	9	9	4	4
<b>N Spawforth</b>	9	9	11	11	-	-
<b>A Stone</b>	3	3	2	2	1	1
<b>A Thorpe</b>	9	8	9	9	4	4

\*The Finance & Investments Committee (FIC) met on a total of 11 occasions during the year. The meetings should be attended by the two Trustees, the Society's Chairman and one other Non-Executive Committee member by rotation, plus the Executive Team.

†The Audit & Risk Committee (ARC) met on a total of 4 occasions during the year. The meetings should be attended by the ARC Chairman and four other Non-Executive Committee members (three prior to A Stone joining the Committee). The Executive Team are non-voting attendees by invitation only.

## 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 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 Committee, 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
<p><b>Purpose and leadership</b></p> <p>An effective committee promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.</p>	<p>The Society's mission and vision statements (outlined on page 10) were updated as part of the 2019 - 2021 strategy review to better define who we are and what we aim to achieve.</p>
	<p>The three year strategy was created in 2019 with the introduction of a new Executive Team. Due to the success of the Society in recent years the strategy remained consistent with previous years. The Covid-19 pandemic led to certain revisions in the strategy, mainly around growth expectations, however all targets still aim for positive growth over the three year period and are still focussed towards prioritising our members.</p>
	<p>The ethos of the Society has been refined over a number of years and regularly discussed with employees during team meetings and appraisals. To maintain our culture for the long-term we aim to empower employees by promoting internally where possible, as illustrated by the recent promotion of Dawn Gregory to Chief Commercial Officer. In line with the culture and expectations of a mutual organisation we are also looking to boost the ethical stance of the Society in 2021.</p>
<p><b>Committee Composition</b></p> <p>Effective committee 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 committee should be guided by the scale and complexity of the organisation.</p>	<p>Our Chairman, Stephen Hindmarsh, has been in position since June 2018 and joined the Committee as a Non-Executive in 2014. Stephen has significant legal experience and is able to draw on this experience to facilitate constructive discussion during meetings. The Society therefore has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained.</p>
	<p>The Board now consists of 11 members; three executives and eight NED's, with each member bringing a range of expertise, including property management, legal, risk and compliance, sales and marketing and accountancy. In September 2020 Adrian Stone joined the Society, bringing with him a wealth of audit experience after retiring as UK Head of Audit from KPMG. Dawn Gregory also joined the Board on 1 January 2021 as Chief Commercial Officer, after being promoted from Head of Business Development and Marketing. All directors have equal voting rights when making decisions, except the Chairman, who has a casting vote.</p>
	<p>Committee members are subject to election every three years at the AGM in accordance with the Society's Rules. Members who have served in their position for more than nine years, providing they are still providing balanced views on issues facing the Society, will offer themselves for annual re-election.</p>
	<p>Internal Committee appraisals are carried out annually with written feedback given to each Member individually on a confidential basis. The Vice-Chairman also carries out the annual appraisal of the Chairman's performance.</p> <p>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 the minimum Continuing Professional Development (CPD) requirement. Non-executives are asked to attend external seminars and conferences where possible 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.</p>



Principle	How SMFS Has Applied the Principle
<p><b>Director Responsibilities</b></p> <p>The committee and individual directors should have a clear understanding of their accountability and responsibilities. The committee's policies and procedures should support effective decision-making and independent challenge.</p>	<p>All directors and non-executive directors complete an annual fit and propriety 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 Committee also review the Management Responsibilities Map on a quarterly basis to ensure that all Committee members are aware of their responsibilities under the SM&amp;CR and that there are clear lines of accountability.</p> <p>An Audit &amp; Risk Sub-Committee was introduced on 1 January 2019 to enhance independence in communication and oversight particularly around the internal and external audit process.</p> <p>Proportionate to the size and complexity of the business, the Society does not have a distinct Nomination and Remuneration Committee but matters which would be dealt with by this Committee are reviewed by the full Committee.</p> <p>Our internal auditors, RSM, present to the ARC on a quarterly basis. The internal audits carried out during 2020 demonstrated that we have effective governance arrangements in place 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 Committee and the Society's members that solid processes are in place to confirm the integrity of information provided.</p> <p>The Committee receives regular reports (at least monthly) on all key areas of the business and its performance.</p>
<p><b>Opportunity and risk</b></p> <p>A committee 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.</p>	<p>The oversight of the Society's risks is carried out by our Audit &amp; Risk Committee 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 10.</p> <p>The Society has invested and increased its resources in risk management over recent years, with the increase in internal audits carried out per year, more third party assessments on cyber security, the recruitment of a Chief Operating Officer and Non-Executive Director expertise in IT security and Audit and the planned appointments of a Cyber Security &amp; IT Specialist and Risk &amp; Compliance Specialist.</p> <p>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 and can present risks if investment isn't made. The March 20 lockdown demonstrated that businesses needed to quickly adapt to changing needs, with IT investment essential to ensure that service levels could be maintained whilst operating away from the office.</p> <p>Also, during 2020 the team has implemented our new website, which will form the basis for the next phase of our IT project in rolling out a member portal.</p> <p>Throughout the business there are strict controls in place to mitigate risk, as set out mainly within our ORSA, Internal Controls, Committee of Management Manual and Compliance Manual, detailing approval limits on transactions, user permissions, etc. These controls are reviewed at least annually and approved by the Committee of Management.</p>

Principle	How SMFS Has Applied the Principle
<p><b>Remuneration</b></p> <p>A committee 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.</p>	<p>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. An internal audit was carried out on the Society's bonus scheme in 2018 with only several minor recommendations made and promptly implemented.</p> <p>Executive bonus schemes have updated for 2021 to ensure that there are clear targets assessing the Society's investments against a number of ESG measures.</p> <p>Committee remuneration is detailed on pages 20-21. Further to an independent third-party review the Society has followed the recommended remuneration structure.</p> <p>Each employee's job specification is considered in isolation and an appropriate remuneration package designed depending upon the nature and seniority of the position.</p>
<p><b>Stakeholder relationships and engagement</b></p> <p>Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The Committee is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.</p>	<p>Our team is one of the main reasons our members value being with the Society due to the personal service we provide. Our employees have remained with the Society on average for approximately 5 years and have minimal absenteeism. In recognition of this the Society rolled out the employee Westfield Cash Plan scheme in 2019. All employees all have pension policies which are pooled in the members with-profits fund and therefore participate and engage in the success of the Society.</p> <p>All 17 employees are based at the Tankersley head office. We aim to hold weekly full team meetings either in person or via video conference when working remotely. The Executive Team each have responsibility for the various departments within the business and are therefore very close to day to day operations and have direct engagement with employees.</p> <p>Payments to our suppliers are always within the requested payment period unless there are outstanding queries.</p> <p>In line with our history, heritage and ethical values, Sheffield Mutual Friendly Society is committed to helping charities and good causes in the course of doing business. In 2020 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. We have also sponsored Barnsley Hospice (£2.5k), a charity which provides specialist compassionate palliative care and support to people with active and progressive life-limiting illnesses such as Cancer, Heart Disease or Parkinson's. 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. At Christmas the team personally donated gifts to the Sheffield Women's Aid refuge.</p>

## Chairman's Statement on Corporate Governance

It is my responsibility to ensure that the Society applies the principles of the Code across the business appropriately. The Committee aims to apply the spirit of the principles of the Code and it is the Committee'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

# Committee Evaluation

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

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

There is a succession plan in place which has identified potential replacement dates and a skills matrix which identifies any skills gaps the Committee may consider for future recruitment. Subject also to the Society's rules, new appointments to the Committee are being made on the basis of three-year terms. Where Committee members have held their position for more than nine years, they will be subject to re-election at the Society's Annual General Meeting (AGM) on a year by year basis. The Society has a formal diversity policy for Committee appointments. The Society sees diversity at Committee level as an important consideration in maintaining a balanced and cohesive governing body. The Society seek to utilise different skills, industry experience, background, race, gender

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

There was an appointment to the Committee in September 2020 and a further in January 2021. Adrian Stone, UK Head of Audit at KPMG until 2017, was co-opted onto the Committee on 25 September 2020 and Dawn Gregory, our Chief Commercial Officer who has been with the Society for over 12 years, was co-opted onto the Committee on 29 January 2021. Adrian retired in 2018 and has significant experience to assist the Society, particularly on risk management and ensuring adequate controls are in place for policies and procedures. Dawn has built up extensive knowledge of the business and our sector and has helped the Society to substantially grow during her employment. Adrian and Dawn will be offering themselves for election at the AGM and the Chairman recommends that they should be elected to the Committee of Management.

There are four Committee members offering themselves for re-election at the AGM and the Chairman confirms that, following formal performance evaluations, the individuals remain effective and that they continue to demonstrate commitment and due skill to the role. He recommends therefore that they should be re-elected.

***“The Society sees diversity at Committee level as an important consideration in maintaining a balanced and cohesive governing body.”***

# Committee Remuneration Report

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

During 2020 the non-executive Committee members were remunerated for their attendance at meetings, with a daily meeting attendance fee of £100 each for attending a sub-Committee, £125 for the Committee of Management meeting, £200 for attending the full Committee plus a sub-Committee on the same day and £250 if attending the full Committee meeting and two sub-Committee meetings on the same day. They were also reimbursed for travel costs. Retainer fees were £8,250 for the Chairman, £8,000 for the Trustees, £7,700 for the Chair of a sub-Committee (when not a Trustee) and £5,500 for other non-executive Committee Members. The fees are neither pensionable nor performance-related. The remuneration of the Chairman is decided by other Committee members and the Committee agrees their own fee rates.

2021 Non-executive fee levels were reviewed by the Committee in November 2020 and have been revised based on the recommendation of an independent report. The report was carried out in 2015, but only partially implemented at the time. Further to the increased allocation of responsibilities brought about by the Senior Managers and Certification Regime, the recommendation has now been implemented in full. From 1 January 2021, a flat fee of £10,000 will be paid to all Non-executives, with additional payments of £3,000 to the Chairman, £1,000 to the Chairman of a sub-committee and £1,000 per each Senior Management function held by a non-executive.

The Chief Executive Officer and Chief Operating Officer are employed on salaried contracts, which require six or three months notice respectively by either party. Their salary packages are reviewed annually by the Committee without them being present. They are members of the Society's Group Personal Pension Scheme and are eligible for a discretionary performance related annual bonus payment of up to £10,000 for the Chief Executive and up to £6,000 for the Chief Operating Officer, which may be paid as pension contributions. As part of the 2019-21 Strategic Review, an additional element was included within the Executive Team bonus scheme relating to longer term business targets. If certain objectives are attained throughout the three-year period 2019-21, up to £2,000 per annum will be awarded to the CEO and £1,000 per annum to the COO, paid in 2022. None of the Executive Team served as remunerated non-executive directors elsewhere during the year.

The Committee 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.

## Committee Members' Emoluments

	Salary/Fees & Expenses	Taxable Benefits	Pension Contributions	2020 Total	2019 Total
	£	£	£	£	£
<b>Chairman</b>					
S Hindmarsh	10,462	-	-	10,462	10,606
<b>Trustees</b>					
J Barber (From Jul 19)	10,198	-	-	10,198	8,691
M Lunn (Retired Jun 19)	-	-	-	-	5,193
N Spawforth	10,201	-	-	10,201	10,153
<b>Committee</b>					
S Birch	7,674	-	-	7,674	7,635
A Burdin	7,678	-	-	7,678	7,665
S Johnson (Retired Jun 19)	-	-	-	-	3,464
S Plant-Hately	9,912	-	-	9,912	8,648
A Stone (Joined Sep 20)	2,568	-	-	2,568	-
A Thorpe (Joined Oct 19)	7,588	-	-	7,588	1,641
<b>Chief Executive</b>					
J Bellamy	95,000	-	25,045	120,045	108,725
<b>Chief Operating Officer</b>					
P Galloway	82,450	-	4,500	86,950	77,460

# Members of the Committee

## **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 treasurer of the Manchester Area Cross Country League and enjoys cycling, swimming and walking. He can also play the piano.

## **Jan Barber** Vice Chairman & Trustee

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 Committee of Management, particularly in the areas of customer services, sales management, team performance and regulatory compliance. Having been semi-retired since 2009 Jan finds time to help and support local charities close to her home in Leeds and in her spare time she enjoys gardening, walking and reading.

## **Neil Spawforth, MRICS** Trustee

Neil has over 20 years' experience as a Chartered Surveyor and his knowledge of commercial property is of great value to the Society. Neil was elected as a Trustee in 2017 and previously served as Vice-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.

## **Jamie Bellamy, FCCA, PgD, LLB (Hons)** Chief Executive

Jamie joined the Society in June 2014 as Finance Manager, became the Finance Director in October 2015 and the Chief Executive in January 2019 and continues to oversee the Society's finance function. Jamie qualified as a certified accountant 7 years ago within a large regional accountancy firm, assisting small to medium businesses and preparing statutory financial accounts. Jamie also has experience of working within Risk Management at a global law firm. Jamie enjoys running and playing a variety of sports and lives with his wife, son and daughter in South Yorkshire.

## **Paul Galloway, BA (Hons)** Chief Operating Officer

Paul joined the Society in 2018 as Chief Operating Officer. Paul is responsible for Risk and Compliance Management, as well as Member Services, Operations, Information Security and IT, and is also the Society's Money Laundering Reporting Officer (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. Paul is a supporter of charities and is the Chair of Trustees for RSPCA Sheffield Branch and also the Regional Vice-Chair representing Yorkshire and the North East for the national RSPCA charity. Paul enjoys music, films, comedy and hiking, and lives in South Yorkshire with his partner and their three cats.

## **Dawn Gregory, MCIM** Chief Commercial Officer

Dawn is responsible for creating and implementing strategic sales & marketing and business development activities whilst managing the Business Development team. Dawn has over 20 years' experience in the retail/financial services sector, spending several years in a management level role at a large UK bank and thirteen years' with Sheffield Mutual. Last year Dawn completed a qualification in 'Professional Marketing' with the Chartered Institute of Marketing. Dawn is a keen birdwatcher who loves nature and travelling in the campervan with her fiancé and their three dogs.

## **Stephen Birch, MIET**

Stephen has worked in the power supply industry for more than 45 years and after retiring from full-time employment in 2015, he continues to work as an electrical power engineer on a self-employed basis. Whilst at National Grid Stephen was a trade union representative for over 20 years. Stephen was a lodge secretary for 28 years and has served on the Committee since 1989 including as President from June 1998 to 2000 and as Vice Chair for two terms. Stephen's hobbies include theatre, DIY, gardening and historic vehicle preservation.

## **Anthony Burdin**

Tony joined the Society in March 2009 as Chief Executive and retired in December 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 Committee as a non-executive director. He has worked in the mutual sector for 39 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.

## **Stuart Plant-Hately, ACA, FCSI, BSc (Hons)**

### **Chair of Audit and Risk**

Stuart joined the Society in January 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.

## **Adrian Stone**

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, BSc (Hons)**

Andrew joined the Society in October 2019 as a non-executive and has been employed by HSBC since 2005, now acting as their Contact Centre Infrastructure Manager EMEA, which involves oversight of data security / integrity within EMEA and supervising the migration of telecommunications service solutions. IT & Data Security expertise is increasingly important within any organisation and Andrew was identified by the Committee as having the necessary knowledge to advise the Society on these areas.

## **Statement of Disclosure to the Auditors**

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

The Committee of Management members who held office at the date of the approval of the Report and Accounts confirm that, as far as each of them is aware, there is no information relevant to the audit of the Society's financial statements for the year ended 31 December 2020 of which the auditors are unaware;

And,

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

**By Order of the Committee**



**Stephen Hindmarsh**

Chairman

31 March 2021

# Independent Auditors' Report to the Members of Sheffield Mutual Friendly Society

## Opinion on the financial statements of Sheffield Mutual Friendly Society

We have audited the financial statements of Sheffield Mutual Friendly Society for the year ended 31 December 2020, which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard FRS 102 and 103.

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2020 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 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 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 Management Committee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Management Committee'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 ended 31 December 2021, and including up to date post year end management accounts
- Reviewing the Society's business plan 2021 including medium term forecast to 2024
- Reviewing the 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 Provision 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 160% as at the 31 December 2020 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 2024 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 Committee of Management with respect to going concern are described in the relevant sections of this report.

## Our approach to the audit

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed external actuarial experts ('reviewing actuary').

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Management Committee made subjective judgements, for example in respect of the valuation of the technical provisions which are subject to management judgement and estimation. We also updated our risk assessment for the impact of Covid-19 and focussed our audit effort over the appropriateness of going concern and post balance sheet event disclosures.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatement on our audit and the financial statements. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined an overall level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined planning materiality for the Society to be £414,000 which is approximately 2% of the prior year Fund for Future Appropriations.

On the basis of our risk assessment, together with our assessment of the Society's overall control environment, our judgement is that the overall performance materiality level should be 70% of planning materiality, namely £290,000. We agreed with the Committee of Management that we shall report to them misstatements in excess of £14,500 that we identify through the course of the audit, together with any qualitative matters that warrant reporting.

At the conclusion of the audit, we re-assess the materiality levels based on the audited financial statements and then compare this with the planning materiality. The result of this assessment showed there was no significant change to final materiality and we are satisfied with the levels set at the planning stage.

## 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	Observation
<p><b>Valuation of Technical Provisions</b></p> <p>As at 31 December 2020, the Society recognised long term business provisions (the 'Technical Provision') of £123.9m (2019: £111.0m) that were prepared in line with the Society's accounting policy. Due to the size and nature of the Technical Provision, we consider these to be material to the financial statements.</p> <p>The Technical 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.</p> <p>Through the selection of appropriate assumptions, the Management Committee are 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.</p>	<p>In assessing the valuation of the Technical Provision, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We engaged the services of a suitably qualified, independent and experienced actuary ('Reviewing Actuary') to review and report on the methodology and assumptions applied by the Management Committee in the calculation of the Technical Provision, and on the accuracy of the calculation itself</li> <li>• We reviewed the reasonableness of the assumptions used in the calculation and considered the advice of our Reviewing Actuary as to whether those assumptions were reasonable and the impact they had on the calculation</li> <li>• 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</li> <li>• One key component to the Technical Provision are the expense assumptions. We challenged the Management Committee'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</li> </ul>	<p>Overall, based on the assumptions and methodology used at 31 December 2020, we consider the assumptions and methodology used in valuing the Technical Provision recognised within the financial statements to be appropriate and reasonable.</p>

Key audit matter	How our audit addressed the key audit matter	Observation
<p><b>Management override of controls</b></p> <p>Auditing Standards require us to communicate the fraud risk from management override of controls as significant.</p> <p>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.</p>	<p>In assessing the risk that accounting records and the financial statements are materially misstated through management overriding controls, we have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Reviewed the completeness and reasonableness of accounting estimates (in conjunction with work performed on the Technical Provision noted earlier)</li> <li>• Using audit data analytical software, we ran a group of tests on the general ledger data to identify transactions of a higher risk nature to review and substantiate to appropriate evidence</li> <li>• Checked the consistency and appropriateness of accounting policies and disclosures in the financial statements</li> </ul>	<p>Overall, we are satisfied that the accounting records and financial statements are free from material misstatement in this respect.</p>
<p><b>Covid 19 and going concern</b></p> <p>Due to the continued unprecedented circumstances caused by Covid – 19, we considered going concern to represent a key risk to the audit.</p> <p>Management has concluded that the Society remains a going concern at the date of signing these financial statements.</p> <p>As at 31 December 2020, the Society had coverage of the Solvency Capital Requirement (SCR) of 161% and stress testing of the Solvency position in the Forward-Looking Assessment of Own Risk results in the Society remaining able to meet its SCR prior to implementation of management actions.</p>	<p>In response to the additional risk presented by Covid 19 we have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• The Own Risk and Solvency Assessment (ORSA) and Forward-Looking Assessment of Own Risk have been reviewed to check that the Society has considered appropriate stressed scenarios and that it will remain able to meet its regulatory capital requirements during the going concern review period</li> <li>• Our Reviewing Actuary reviewed the assumptions used in the revised calculations and provided comments on sensitivities inherent in the model</li> <li>• Reviewed up to date management information, budgets and business plans to assess if there was evidence of significant changes in behaviours and attitudes of members and rental tenants</li> <li>• Specific discussions with management about contingency planning measures and impact of social distancing requirements on the operations of the Society</li> <li>• Reviewed the reasonableness of additional disclosures made in the financial statements</li> </ul>	<p>Overall, we are satisfied that the Management Committee's adoption of the going concern basis of preparation remains appropriate and additional disclosures are reasonable and appropriate.</p>

## Other Information

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

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- ✔ **Fair, balanced and understandable** - the statement given by the Management Committee that they consider the annual report and financial statements 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, is materially inconsistent with our knowledge obtained in the audit; or
- ✔ **Audit committee reporting** - the section describing the work of the audit and risk committee does not appropriately address matters communicated by us to the audit committee

We have nothing to report in respect of these matters.

## 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 Report of the Committee of Management for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- ✔ the strategic report and the Report of the Committee of Management 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 Management Committee report.

## Matters on which we are required to report by exception

### - Friendly Societies Act 1992:

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

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

## Responsibilities of the Committee of Management

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

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

## 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.

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.

We gained an understanding of the legal and regulatory framework applicable to Society, and considered the risk of acts by the Society which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Society's financial statements, including but not limited to, the Friendly Societies Act 1992, Financial Services and Market Act 2000, the Prudential Regulation Authority's regulations, the Financial Conduct Authority's regulations, the Solvency II regulations and the UK tax legislation.

Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, enquiries of management, review of reports by internal auditors and compliance consultants and review of the Society's register of complaints and negative comments.

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

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

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://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 Management Committee on 24 August 2017. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years.
- 🔪 **Non – audit services** - The non- audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the Society in conducting our audit.
- 🔪 **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 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.

## BHP LLP

Statutory Auditors  
2 Rutland Park  
Sheffield  
S10 2PD

## 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 Actuarial Function Holder 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 ("OAC") for professional services, which amounted to £149,283 in 2020 (2019: £148,310).

# Income and Expenditure Account

	Note	2020	2019
		£	£
<b>Technical Account - long term business</b>			
<b>Income</b>			
Earned premiums	5	17,771,516	20,736,988
Investment and other income	6	4,827,789	5,795,556
Unrealised investment gains	7	4,609,123	13,262,804
<b>Total Income</b>		<b>27,208,428</b>	<b>39,795,348</b>
<b>Expenditure</b>			
Claims incurred	8	(9,054,397)	(8,031,642)
Net operating expenses			
Acquisition expenses	9	(710,735)	(771,534)
Administrative expenses	9	(754,429)	(662,481)
Investment expenses and charges			
Investment management expenses	10	(256,143)	(216,163)
Taxation attributable to long term business	11	(347,723)	(112,100)
Unrealised losses on investments	14	(6,893,385)	(217,775)
Realised losses on investments	15	(2,020,405)	-
Change in long term business provision	19	(8,285,055)	(23,983,229)
Transfer from / (to) fund for future appropriations	20	1,113,844	(5,800,424)
<b>Balance on the Technical Account</b>		<b>-</b>	<b>-</b>

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 19(b).

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

# Balance Sheet

	Note	2020	2019
		£	£
<b>Assets</b>			
<b>Investments</b>			
Land, buildings and commercial mortgages	16	42,366,209	41,485,344
Other financial investments	16	89,160,826	80,308,266
		<u>131,527,035</u>	<u>121,793,610</u>
<b>Assets held to cover linked liabilities</b>	16	<b>42,332,476</b>	46,735,896
<b>Other assets</b>			
Fixed assets	17	515,558	448,437
Cash at bank and in hand		7,754,808	5,095,591
<b>Prepayments and accrued income</b>			
Accrued interest and rent		254,119	218,732
Other prepayments and accrued income		652,216	662,311
		<u>254,119</u>	<u>218,732</u>
		<u>652,216</u>	<u>662,311</u>
<b>Total Assets</b>		<b><u>183,036,212</u></b>	<b><u>174,954,577</u></b>
<b>Liabilities</b>			
<b>Technical provisions</b>			
Long term business provision	19	(123,909,780)	(110,990,064)
<b>Technical provision for linked liabilities</b>	19	<b>(37,419,825)</b>	(41,746,326)
<b>Fund for future appropriations</b>	20	<b>(19,594,838)</b>	(20,708,682)
<b>Creditors</b>			
Other creditors including taxation and social security		(356,244)	(178,308)
<b>Accruals and deferred income</b>	21	<b>(1,755,525)</b>	(1,331,197)
		<u>(356,244)</u>	<u>(178,308)</u>
		<u>(1,755,525)</u>	<u>(1,331,197)</u>
<b>Total Liabilities</b>		<b><u>(183,036,212)</u></b>	<b><u>(174,954,577)</u></b>

The financial statements were approved by the Committee of Management on 31 March 2021

**S Hindmarsh**  
Chairman

**J Bellamy**  
Chief Executive

**P Galloway**  
Chief Operating 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 Committee of Management have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to apply the going concern basis of accounting in preparing the Annual Report and Financial Statements.

### (b) Earned premiums

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

### (c) Claims paid

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

### (d) Investment income

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

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

### (e) Investments

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

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

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

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

Bank deposits represent variable rate deposits with interest paid annually.

Money market deposits represent fixed rate deposits with a maturity of one to three 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 in an earmarked fund. The Society's contributions in respect of the year are shown in Note 12. 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 Committee of Management 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 Actuarial Function Holder and With-Profits Actuary following her annual investigation of the Society's long term business and linked liabilities. They are evaluated on a Solvency II basis.

### **(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 Committee of Management are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

### **(a) Key sources of estimation uncertainty**

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

#### **(i) Valuation of long term insurance contract liabilities:**

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

## (ii) Valuation of financial instruments:

The Committee of Management use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. However, where observable quoted prices are not available, the Society adopts the fair value hierarchy set out in FRS 102 section 11.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 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 2020 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 over the page sets out the capital resources requirement and the Society's available capital.

	2020	2019
	£000	£000
Solvency Capital Requirement	<b>11,874</b>	<u>12,595</u>
Available capital resources	<b>19,595</b>	20,709
Less assets inadmissible for Solvency II	<b>(437)</b>	<u>(370)</u>
Total available capital resources	<b>19,158</b>	20,339
Solvency cover	<b>161%</b>	161%

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

	2020	2019
	£000	£000
Opening fund for future appropriation	<b>20,709</b>	14,908
Transfer to fund for future appropriation from Income and Expenditure account	<b>(1,114)</b>	5,801
Solvency cover	<b>19,595</b>	<u>20,709</u>

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 above, the capital resources requirement amounts to £11.874m and is determined in accordance with capital requirements as defined by Solvency II. As at 31 December 2020 the Society's capital resources were 161% of its capital requirements.

Approximately 35% of the fund excluding the Child Trust Fund business is held in property and approximately 31% is held in equities. These are sensitive to market movements in general. About 24% is held in UK bonds and gilts, and changing market conditions can affect bond values and future

returns. Each bond also has its own individual credit risk. About 1% is held in the form of commercial mortgages. The remaining assets are invested in cash and deposits which are subject to default risk.

The valuation interest rate is set in reference to risk-free rates specified by the European Insurance and Occupational pensions Authority ("EIOPA") as at 31 December 2020.

The main assumptions used in the statutory valuation carried out as at 31 December 2020 are set out below.

-  **Valuation Interest Rate**  
Solvency II risk free yield curve
-  **Mortality**  
All applicable tables: 30% of ELT15 Males
-  **Expenses**  
The allowance in the premium rates plus a specific reserve based on expected per policy costs and inflated in line with RPI-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

## (b) Available capital sensitivity analysis

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

Variable	Change in variable	Change in available capital £'000s
Expense allowances	10%	-786
Expense allowances	-10%	786
Change in rate of mortality (%ELT)	10%	-185
Change in rate of mortality (%ELT)	-10%	196
Change in fixed interest yields	EIOPA shock up	1,787
Change in fixed interest yields	EIOPA shock down	-152
Fall in fixed interest asset value	-10%	-1,656
Fall in equity values	-10%	-2,606
Fall in property values	-10%	-1,989

The EIOPA interest rate down shock to fixed interest yields and the fall in asset values reduce the available capital considerably. The biggest reduction comes from a 10% fall in equity values. The Society has 31.6% of its assets excluding CTF in equities and a 10% fall in values leads to a reduction in available capital of £2.606m.

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

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

## (c) Analysis of change in capital resources

	2020	2019
	£000	£000
Total available capital resources at 1 January	20,709	14,908
Premiums less claims and expenses	7,252	11,271
Investment income less tax	2,203	5,693
Unrealised (losses) / gains on investments	(2,284)	13,045
Change in mathematical reserves	(8,285)	(24,208)
Total available capital resources at 31 December	<u>19,595</u>	<u>20,709</u>

#### (d) Technical Provision reconciliation

2020	
£000	
Technical provision at 1 January	110,990
Methodology change	(1,338)
Impact of data movements in reserves	(3,065)
Change in discount rates	400
Change in expenses and inflation	516
Change in lapse assumption	(62)
Change in mortality assumption	110
Change in investment returns	3,850
Change in bonus rates	(1,035)
New business and risk margin	13,544
Total available capital resources at 31 December	<u>123,910</u>

## 4. Risk Management

This section summarises the principal risks that the Society is exposed to and the way the Society manages them.

#### (a) Insurance risk

Insurance Risk is the risk of loss due to uncertainties over timing, amounts and occurrence of events

insured by the Society. Insurance related risks include mortality risk, persistency risk, taxation, new business and renewal expense risk - with persistency risk being the main item. The Society has no exposure to longevity risk, nor does it have any reinsurance arrangements.

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

The Society manages insurance risk by:

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

#### Concentration of insurance risk

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

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

	2020	2019
	£000	£000
Sickness and death	1,103	991
Pure endowments	16,208	14,958
Endowments	865	783
Taxable saving plans	7,123	6,890
Investment bond	31,301	25,999
ISA	67,598	62,032
Pension bond	509	883
Other	853	686
Total	<u>125,560</u>	<u>113,222</u>

## (b) Financial risk management

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, and insurance liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk. However, the Society also faces financial risks in respect of property valuations, concentration of investments and counter-party exposures.

Each of the exposures to risk are analysed regularly to assess their likely impact and probability. The overall level of risk is then compiled into a detailed report taking into account the correlation of individual risks to arrive at a required level of capital. The Committee of Management is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

### i. Market risk

Market risk is the risk of losses arising from changes in the value of assets or in the income from the assets. The Society manages market risk so that

the returns generated are in line with members' expectations and support the Society's future strategic and operational objectives.

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

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

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

### Concentration of market risk

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

	United Kingdom	Asia & Africa	North & South America	Europe Excluding UK	Grand Total
	£	£	£	£	£
Open Ended Investment Companies	556,178	10,845,542	5,017,020	2,777,783	19,196,523
Investment & Unit Trusts	7,920,011	-	-	-	7,920,011
Consumer Goods	3,915,952	-	-	-	3,915,952
Financials	2,806,365	-	-	-	2,806,365
Health Care	2,312,498	-	-	-	2,312,498
Infrastructure	1,926,720	-	-	-	1,926,720
Basic Materials	1,604,820	-	-	-	1,604,820
Industrials	1,345,926	-	-	-	1,345,926
Consumer Services	1,239,661	-	-	-	1,239,661
Utilities	709,455	-	-	-	709,455
Miscellaneous	587,813	-	-	-	587,813
Property	442,705	-	-	-	442,705
Technology	291,450	-	-	-	291,450
Telecommunications	241,900	-	-	-	241,900
Oil & Gas Producers	178,378	-	-	-	178,378
<b>Total</b>	<b>26,079,832</b>	<b>10,845,542</b>	<b>5,017,020</b>	<b>2,777,783</b>	<b>44,720,177</b>

## ii. Equity price risk

Holdings in equities are by their nature subject to market movement. In order to mitigate this risk the Society employs an external investment portfolio manager. Equity purchases focus on defensive rather than cyclical stocks, focussing on companies with sound balance sheets, global reach and strong dividend earnings / potential.

## iii. Interest rate risk

The Society is exposed to interest rate risk where changes in interest rates result in changes to market values or cash flows and where this is not matched by the change in the value of liabilities. This risk can be greater if the term of fixed interest investments is not well matched to the term of the liabilities. Members of the Society bear most of the market risk through the annual bonuses allocated to them.

## iv. Exchange rate risk

The Society holds a number of overseas equities which present a small exchange rate risk. Given the perceived low risk of these investments on the overall portfolio, and the Society's long term investment objectives, the Society does not hedge against the exchange rate risk.

## v. Credit risk

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

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

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

## Concentration of credit risk

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

	United Kingdom	North America	Europe Excluding UK	Asia & Africa	Grand Total
	£	£	£	£	£
UK fixed interest	24,976,056	-	-	-	24,976,056
British Government funds	6,208,968	-	-	-	6,208,968
Open Ended Investment Company	1,890,686	1,687,083	1,606,910	583,125	5,767,804
Overseas fixed interest	-	504,773	362,525	-	867,298
Total	<u>33,075,710</u>	<u>2,191,856</u>	<u>1,969,435</u>	<u>583,125</u>	<u>37,820,126</u>

## vi. Liquidity risk

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

are subject to well established trends. The recent increase in ISA balances may require the Society to hold additional liquidity in the future to meet withdrawals, but ISAs are regarded as relatively 'sticky' investments.

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

The Society has a medium tolerance to liquidity risk, which means that cash and near cash holdings are kept at relatively modest levels so that yields are not adversely affected. This approach is considered appropriate given the predictable nature of most policy claims and the fact that the Society is a positive cash generator.

Liquidity risk is managed as follows:

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

#### vii. Fair value

The principal financial assets held at 31 December 2020, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment properties	-	-	41,395	<b>41,395</b>
Debt securities	32,052	-	-	<b>32,052</b>
Equity securities	21,796	-	-	<b>21,796</b>
Emerging market securities	10,895	-	-	<b>10,895</b>
Global Special Situations securities	8,301	-	-	<b>8,301</b>
UK Real Estate fund	-	4,565	-	<b>4,565</b>
Global Strategic Bond fund	5,768	-	-	<b>5,768</b>
Alternative assets	3,727	-	-	<b>3,727</b>

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

## 5. Earned premiums

	2020	2019
	£	£
Single Premium Income	<b>14,329,494</b>	17,363,326
Regular Premium Income	<b>3,442,022</b>	3,373,662
	<b><u>17,771,516</u></b>	<u>20,736,988</u>



## 6. Investment and other income

	2020	2019
	£	£
Rental income receivable	2,390,672	2,568,235
Income from listed investments	1,667,151	2,060,290
CTF Unit Linked management charges received	583,132	617,165
Income from UK Real Estate Fund	110,604	98,527
Mortgage interest receivable	59,038	58,814
Bank interest receivable	17,192	33,294
Gain on the sale of listed investments	-	359,231
	<u>4,827,789</u>	<u>5,795,556</u>

## 7. Unrealised investment gains

	2020	2019
	£	£
Unrealised gain on listed investments: - With Profits	4,609,123	6,410,756
- Unit Linked	-	6,852,048
	<u>4,609,123</u>	<u>13,262,804</u>

## 8. Claims incurred

	2020	2019
	£	£
Endowments and matured policies	3,202,492	3,320,896
ISA withdrawals	2,867,765	2,764,663
Death benefits	2,341,492	1,094,217
Surrendered policies	535,750	755,425
Income Bond withdrawals	100,847	82,510
Additional benefits	6,051	13,931
	<u>9,054,397</u>	<u>8,031,642</u>

## 9. Acquisition expenses

	2020	2019
	£	£
Salaries, including national insurance	259,573	225,724
Pension contributions	31,852	23,169
Internal auditors and compliance consultant's fees	5,353	4,808
Actuary's fees	37,321	37,077
Auditors' fees	15,345	12,450
Legal and professional fees	8,913	7,072
PRA / FCA Regulatory fees	13,711	11,641
Committee of Management fees and expenses	16,570	15,924
Computer running costs	18,718	14,746
Website and software development	1,990	887
Postage	13,538	10,046
Printing and stationery	5,708	5,785
Insurance	2,204	2,156
Motor vehicle and travel costs	562	3,109
Lodge expenses	-	28
Bank charges	4,246	4,729
Miscellaneous expenses	1,380	1,055
Charitable donations and gifts	13,485	12,821
Office expenses	25,738	26,786
Entertaining	-	627
Advertising and promotional costs	124,375	159,872
Personnel and training	2,158	1,833
Fees and commissions paid	100,948	180,015
Depreciation - office furniture and equipment	1,774	1,775
Depreciation - motor vehicles	52	208
Depreciation - computer equipment	4,281	3,891
Depreciation - website development	-	1,600
Depreciation - software development	5,100	1,700
Gain on disposal of motor vehicle	(4,160)	-
	<u>710,735</u>	<u>771,534</u>

## Administrative expenses

	2020	2019
	£	£
Salaries, including national insurance	259,573	225,724
Pension contributions	31,852	23,170
Internal auditors and compliance consultant's fees	16,058	14,423
Actuary's fees	111,962	111,233
Auditors' fees	46,035	37,350
Legal and professional fees	26,738	21,217
PRA / FCA Regulatory fees	41,132	34,924
Committee of Management fees and expenses	49,711	47,773
AGM expenses	12,228	11,016
Computer running costs	38,002	29,939
Website and software development	4,040	1,801
Postage	27,487	20,397
Printing and stationery	11,588	11,746
Insurance	4,474	4,378
Motor vehicle and travel costs	187	1,037
Subscriptions	9,523	4,136
Lodge expenses	-	84
Bank charges	12,739	14,186
Miscellaneous expenses	2,803	2,142
Office expenses	25,738	26,786
Entertaining	-	628
Personnel and training	2,158	1,834
Depreciation - office furniture and equipment	5,321	5,327
Depreciation - motor vehicles	156	623
Depreciation - computer equipment	12,842	11,671
Depreciation - website development	-	4,798
Depreciation - software development	15,300	5,100
Recoverable VAT on expenses	(11,831)	(10,962)
Gain on disposal of motor vehicle	(1,387)	-
	<u>754,429</u>	<u>662,481</u>

## 10. Investment management expenses

	2020	2019
	£	£
Investment manager charges / commission	189,180	181,314
Property related charges	66,963	34,849
	<u>256,143</u>	<u>216,163</u>

## 11. Taxation

	2020	2019
	£	£
<b>Current Tax:</b>		
UK corporation tax	242,000	90,381
UK corporation tax re prior years	105,723	21,719
Corporation tax charge	<u>347,723</u>	<u>112,100</u>

## 12. Staff costs

	2020	2019
	£	£
Salaries and wages	473,657	411,544
Social security costs	45,490	39,904
Pension costs	63,703	46,339
	<u>582,850</u>	<u>497,787</u>
Average number of employees:		
Executive	2	2
Administration	13	11
	<u>15</u>	<u>13</u>

## 13. Committee of Management emoluments

		2020	2019
		£	£
Remuneration and attendance fees		<b>242,683</b>	228,950
Society pension contributions to defined contribution schemes		<b>29,545</b>	17,985
Expenses		<b>1,048</b>	2,947
Total emoluments		<b><u>273,276</u></b>	<u>249,882</u>
Chairman		<b><u>10,462</u></b>	<u>10,606</u>
Highest paid member:	Salary	<b>95,000</b>	95,000
	Pension contributions	<b><u>25,045</u></b>	<u>13,725</u>

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

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

	2020	2019
	No.	No.
£0 - £15,000	<b>8</b>	9
£15,001 - £85,000	<b>1</b>	1
£85,001 - £125,000	<b>1</b>	1

## 14. Unrealised losses on investments

		2020	2019
		£	£
Unrealised loss on revaluation of investment properties		<b>(1,544,798)</b>	(170,000)
Unrealised loss in UK Real Estate Fund		<b>(142,035)</b>	(47,775)
Unrealised loss on listed investments - Unit Linked		<b>(5,206,552)</b>	-
		<b><u>(6,893,385)</u></b>	<u>(217,775)</u>

## 15. Realised losses on investments

	2020	2019
	£	£
Realised loss on listed investments - With Profits	<u>(2,020,405)</u>	<u>-</u>

## 16. Investments

	Note	2020	2019
		£	£
<b>Summary</b>			
<i>Measured at fair value</i>			
Land and buildings	(a)	<b>41,394,959</b>	40,514,094
<i>Measured at cost</i>			
Mortgages on land and buildings	(b)	<b>971,250</b>	971,250
		<u>42,366,209</u>	<u>41,485,344</u>
<i>Measured at fair value</i>			
Listed & OEIC Investments (excluding CTF)	(c)	<b>87,105,498</b>	77,752,050
<i>Measured at cost</i>			
Bank and money market deposits		<b>2,055,328</b>	2,556,216
		<u>89,160,826</u>	<u>80,308,266</u>
<i>Measured at fair value</i>			
Unit linked assets - CTF	(c)	<b>42,332,476</b>	46,735,896
		<u>173,859,511</u>	<u>168,529,506</u>

## 16(a). Land and buildings

Investment properties	
£	
<i>Cost or valuation</i>	
Balance as at 1 January 2020	<b>40,514,094</b>
Additions	<b>2,425,663</b>
Disposals	-
Revaluation in year	<b>(1,544,798)</b>
Balance as at 31 December 2020	<b><u>41,394,959</u></b>

## 16(b). Mortgages on land and buildings

Commercial	
£	
Balance as at 1 January 2020	<b>971,250</b>
Advances during the year	-
Repaid during the year	-
Balance as at 31 December 2020	<b><u>971,250</u></b>

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 2016 on an open market basis. This was updated by desk-top valuations in December 2017, 2018, 2019 and 2020, with the property valuations being adjusted accordingly.

## 16(c). Investments at valuation

	2020	2019
	£	£
British Government securities	<b>6,208,970</b>	6,073,468
Emerging markets fund	<b>10,895,362</b>	8,205,450
Global special situations fund	<b>8,301,161</b>	5,472,760
Other listed investments		
- equities	<b>21,796,416</b>	22,394,811
- alternative assets	<b>3,727,238</b>	2,727,919
- fixed interest	<b>25,843,354</b>	24,074,867
UK Real Estate fund	<b>4,565,192</b>	4,662,170
	<b><u>87,105,498</u></b>	<u>77,752,050</u>
Child Trust Fund investments	<b>42,332,476</b>	46,735,896
Balances as at 31 December	<b><u>129,437,974</u></b>	<u>124,487,946</u>

## 16(d). Cost of investments

	2020	2019
	£	£
British Government securities	5,939,287	5,957,763
Emerging markets fund	7,100,000	6,500,000
Global special situations fund	6,600,000	5,000,000
Global strategic bond fund	5,125,000	4,000,000
Other listed investments		
- equities	19,077,274	19,158,446
- alternative assets	3,460,968	2,444,401
- fixed interest	24,337,654	23,529,209
UK Real Estate fund	4,638,190	4,593,133
Unit linked investments	23,353,328	23,133,328
	<b>99,631,701</b>	<b>94,316,280</b>

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

	Valuation as at 01.01.20	Purchases	Sales	Realised Gains / (Losses)	Unrealised Gains / (Losses)	Valuation as at 31.12.20
	£	£	£	£	£	£
British Gov't	6,073,468	5,650,183	(5,929,443)	159,222	255,540	6,208,970
Emerging mkts	8,205,450	600,000	-	-	2,089,912	10,895,362
Global spec. sits.	5,472,760	1,600,000	-	-	1,228,401	8,301,161
Strategic Bond Fund	4,140,605	1,250,000	-	-	377,200	5,767,805
Equities	22,394,811	4,897,726	(2,996,466)	(1,957,221)	(542,434)	21,796,416
Alternative	2,727,919	1,959,262	(749,066)	(330,779)	119,902	3,727,238
Fixed interest	24,074,867	6,340,562	(5,758,814)	108,373	1,078,366	25,843,354
UK RE fund	4,662,170	45,057	-	-	(142,035)	4,565,192
	<b>77,752,050</b>	<b>22,342,790</b>	<b>(15,433,789)</b>	<b>(2,020,405)</b>	<b>4,464,852</b>	<b>87,105,498</b>
Unit linked	46,735,896	220,000	-	-	(4,623,420)*	42,332,476
	<b>124,487,946</b>	<b>22,562,790</b>	<b>(15,433,789)</b>	<b>(2,020,405)</b>	<b>(158,568)</b>	<b>129,437,974</b>

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



## 17. Fixed assets - Summary

	Note	Cost	Depreciation	Value 31/12/2020	Value 31/12/2019
		£	£	£	£
Tangible	(a)	479,623	132,062	347,561	351,854
Intangible	(b)	215,672	47,675	167,997	96,583
<b>Total</b>		<b>695,295</b>	<b>179,737</b>	<b>515,558</b>	<b>448,437</b>

### 17(a). Tangible fixed assets

	Land & Buildings	Fixtures & Fittings	Motor Vehicles	Computer Equipment	Total
	£	£	£	£	£
<b>Cost</b>					
At 01/01/2020	300,000	87,171	10,500	70,037	467,708
Additions	-	2,594	-	19,821	22,415
Disposals	-	-	(10,500)	-	(10,500)
Revaluation	-	-	-	-	-
At 31/12/2020	<u>300,000</u>	<u>89,765</u>	<u>-</u>	<u>89,858</u>	<u>479,623</u>
<b>Depreciation</b>					
At 01/01/2020	-	66,987	8,009	40,858	115,854
Disposals	-	-	(8,216)	-	(8,216)
Charge for year	-	7,095	207	17,122	24,424
At 31/12/2020	<u>-</u>	<u>74,082</u>	<u>-</u>	<u>57,980</u>	<u>132,062</u>
<b>Net Book Value</b>					
At 31/12/2020	<u>300,000</u>	<u>15,683</u>	<u>-</u>	<u>31,878</u>	<u>347,561</u>
At 31/12/2019	<u>300,000</u>	<u>20,184</u>	<u>2,491</u>	<u>29,179</u>	<u>351,854</u>

The freehold property has been revalued in accordance with the details in Note 16(a).

## 17(b). Intangible fixed assets

	Website Development	Software Development	Total
	£	£	£
<b>Cost</b>			
At 01/01/2020	21,858	102,000	123,858
Additions	30,600	61,214	91,814
Disposals	-	-	-
Revaluation	-	-	-
At 31/12/2020	<u>52,458</u>	<u>163,214</u>	<u>215,672</u>
<b>Depreciation</b>			
At 01/01/2020	20,475	6,800	27,275
Disposals	-	-	-
Charge for year	-	20,400	20,400
At 31/12/2020	<u>20,475</u>	<u>27,200</u>	<u>47,675</u>
<b>Net Book Value</b>			
At 31/12/2020	<u><b>31,983</b></u>	<u><b>136,014</b></u>	<u><b>167,997</b></u>
At 31/12/2019	<u>1,383</u>	<u>95,200</u>	<u>96,583</u>

## 18. Capital Commitments

At 31 December the Society had capital commitments as follows:

	2020	2019
	£	£
Contracted for, but not provided for in the financial statements	<u><b>3,103,014</b></u>	<u>2,726,538</u>

## 19(a). Long-term business provision - With Profits & Other

	With Profits	Other	2020 Total	2019 Total
	£	£	£	£
At 1 January	111,859,836	(869,772)	<b>110,990,064</b>	93,163,478
Change in long term business provision	12,085,110	834,606	<b>12,919,716</b>	17,826,586
At 31 December	<b>123,944,946</b>	<b>(35,166)</b>	<b>123,909,780</b>	110,990,064

## 19(b). Long-term business provision - Unit Linked

	2020 Total	2019 Total
	£	£
At 1 January	<b>41,746,326</b>	35,217,712
Earned premiums	<b>483,883</b>	510,696
Withdrawals / transfers to other providers	<b>(175,723)</b>	(138,725)
Change in long term business provision	<b>(4,634,661)</b>	6,156,643
At 31 December	<b>37,419,825</b>	<b>41,746,326</b>

## 19(c). Total change in long-term business provision

	2020	2019
	£	£
Total change in long-term business provision	<b>8,285,055</b>	<b>23,983,229</b>

## 20. Fund for future appropriations

	2020	2019
	£	£
At 1 January	20,708,682	14,908,258
Surplus / (deficit) for the year	(1,113,844)	5,800,424
At 31 December	<u>19,594,838</u>	<u>20,708,682</u>

## 21. Accruals and deferred income

	2020	2019
	£	£
Lapsed / matured / death policy claims outstanding	1,162,336	609,857
Deferred rental income	335,996	471,412
Administrative expenses	241,943	225,478
Rent deposits held on account	15,250	24,450
	<u>1,755,525</u>	<u>1,331,197</u>

## 22. Actuarial valuation and technical provision

An Actuarial Report on the assets and liabilities of the Society was last prepared as at 31 December 2020 and a copy of this Report may be inspected at the Registered Office of the Society.

## 23. Related party transactions

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

# Society Information

<b>Registered Office</b>	3 Maple Park Maple Court Wentworth Business Park Tankersley Barnsley S75 3DP Tel: 01226 741000 Email: <a href="mailto:enquiries@sheffieldmutual.com">enquiries@sheffieldmutual.com</a> Web: <a href="http://www.sheffieldmutual.com">www.sheffieldmutual.com</a>
<b>Committee of Management</b>	Janet Barber (Vice Chairman) Jamie Bellamy (Chief Executive) Stephen Birch Anthony Burdin Paul Galloway (Chief Operating Officer) Dawn Gregory (Chief Commercial Officer) Stephen Hindmarsh (Chairman) Stuart Plant-Hately Neil Spawforth Adrian Stone Andrew Thorpe
<b>Trustees</b>	Janet Barber Neil Spawforth
<b>Chief Executive/Secretary</b>	Jamie Bellamy
<b>External Auditors</b>	BHP LLP 2 Rutland Park Sheffield S10 2PD
<b>Internal Auditors</b>	RSM Risk Assurance Services LLP Fifth Floor, Central Square 29 Wellington Street Leeds LS1 4DL
<b>Solicitors</b>	Hill Dickinson 50 Fountain Street Manchester M2 2AS
<b>Actuarial Function Holder and With-Profits Actuary</b>	C Spinks BSc FIA OAC Actuaries and Consultants 141-142 Fenchurch Street London EC3M 6BL
<b>Investment Manager</b>	Investec Wealth & Investment Ltd
<b>Bankers</b>	NatWest Bank plc

Registered under the Friendly Societies Act 1974 (Reg No 810F)  
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register no. 139855)

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

# Glossary

## Abbreviations

<b>AFM</b>	Association of Financial Mutuals
<b>AGM</b>	Annual General Meeting
<b>CTF</b>	Child Trust Fund
<b>EIOPA</b>	European Insurance and Occupational Pensions Authority
<b>ESG</b>	Environmental, Social and Governance
<b>FCA</b>	Financial Conduct Authority
<b>FRC</b>	Financial Reporting Council
<b>FRS</b>	Financial Reporting Standards
<b>GDPR</b>	General Data Protection Regulation
<b>IDD</b>	Insurance Distribution Directive
<b>ISA</b>	Individual Savings Account
<b>ISAs (UK)</b>	International Standards on Auditing (UK)
<b>MVR</b>	Market Value Reduction
<b>ORSA</b>	Own Risk and Solvency Assessment
<b>PPFM</b>	Principles and Practices of Financial Management
<b>PRA</b>	Prudential Regulation Authority
<b>RPI</b>	Retail Prices Index
<b>SCR</b>	Solvency Capital Requirement
<b>SM&amp;CR</b>	Senior Managers & Certification Regime
<b>WPAA</b>	With-Profits Advisory Arrangement





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