Sheffield Mutual

Est. 1892

For you, your family, your future

Financial Statements
Report & Accounts
2018

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Committee of Management	Janet Barber (Vice Chairman) Jamie Bellamy (Chief Executive) Stephen Birch Anthony Burdin Paul Galloway (Chief Operating Officer) Stephen Hindmarsh (Chairman) Sheila Johnson Melvyn Lunn Stuart Plant-Hately Neil Spawforth
Trustees	Melvyn Lunn Neil Spawforth
Chief Executive/Secretary	Jamie Bellamy
External Auditors	BHP LLP 2 Rutland Park Sheffield S10 2PD
Internal Auditors	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4DA
Solicitors	Hill Dickinson 50 Fountain Street Manchester M2 2AS
Actuarial Function Holder and With-Profits Actuary	C Spinks BSc FIA OAC Actuaries and Consultants 141-142 Fenchurch Street London EC3M 6BL
Investment Manager	Investec Wealth & Investment Ltd
Bankers	NatWest Bank plc

Registered under the Friendly Societies Act 1974 (Reg No 810F)

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

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

Strategic Report
For the year ended 31 December 2018

CHAIRMAN'S WELCOME

A warm welcome to our strategic report for 2018. It is my privilege to serve as Chairman following my election after last year's AGM.

Last year saw our total assets increase to in excess of £144 million and 1,614 new policies were accepted. Our premium income was £16.8 million. This is a satisfactory result particularly considering the economic circumstances of 2018.

Investments were carefully monitored by your Committee through what were challenging investment conditions. We have continued to invest in high quality commercial property assets along with UK equities and corporate bonds. In addition, the portfolio now includes limited exposure to overseas equities and emerging markets to take advantage of returns potentially available in those markets.

Central to our mission statement is the delivery of greater returns through transparent and high performing products along with excellent member service. Despite the investment conditions I have noted, you will have seen from your bonus statement that Sheffield Mutual has been able to maintain its bonus rates at the same level as previous years. This demonstrates the financial strength of the Society and the benefit of our mutual status.

The EU General Data Protection Regulation (GDPR) became effective from 25th May. We fully implemented the Insurance Distribution Directive (IDD) on 1st October and on 10th December the Senior Managers and Certification Regime (SM&CR) came into effect. I would like to thank all members of staff for their work and all the training and planning that went into the successful introduction of these important new governance and regulation matters. Risk management is becoming an ever increasing factor in our decision making. In August we appointed Paul Galloway as Chief Operating Officer to manage our risk profile and to work on governance and regulatory matters.

Much work has also been undertaken in 2018 on our IT systems. The main activity has been working on the policy administration system upgrade which will become fully operational during 2019. Our main servers have also been prepared in readiness for the new system and our firewall has been upgraded.

I would like to sincerely thank Tony Burdin, who retired on 31st December, for all his work as Chief Executive. Tony started with Sheffield Mutual in 2009 and whilst under Tony's stewardship we have gone from strength to strength. Tony has agreed to stay with Sheffield Mutual in a new role as non-executive Committee member so we can continue to benefit from his expertise. I am delighted to report that our Finance Director, Jamie Bellamy, has been appointed now to the role of Chief Executive. I am looking forward to working with Tony and Jamie in the future.

Loyal service has also been given to Sheffield Mutual by two Committee members who will retire at our 2019 AGM. Sheila Johnson has been a Committee member since 2009 and was Chairman from 2012 to 2015 and Melvyn Lunn has been a Committee member since 2011 and Trustee of the Society since 2013. On behalf of us all I would like to thank Sheila and Melvyn for all they have done and wish them well for the future. I would also like to thank all our Committee members for their support this year.

You, our members, will continue to be our focus. We are committed to build on the success achieved for your benefit as we move forward.

Stephen Hindmarsh
Chairman

Strategic Report - continued
For the year ended 31 December 2018

CHIEF EXECUTIVE'S BUSINESS REVIEW

Introduction

It gives me great pleasure to present my first annual report and accounts as Chief Executive. Despite a backdrop of ongoing economic uncertainty, volatility in investment markets and the wait for a final Brexit deal, your Society has enjoyed another year of growth in 2018. The main highlights of our performance are as follows:

- Assets excluding the Child Trust Fund (CTF) increased by 9.7% to £105.3 million
- Total assets including the CTF increased by 4.3% to a record £144.3 million
- Traditional membership increased by 3% to 11,635
- Total number of policies increased by 5% to 15,604
- Including the CTF we now have 78,953 policies and accounts

Members and Policies

The Society achieved growth within its membership base and the total number of active policies in 2018. 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.

Our website accounted for almost a third of new policy applications, but our members also value the Society's ongoing commitment to providing quality personal service either face-to-face or via the telephone.

The number of CTF accounts remained broadly flat due to the product no longer being available for new business. Existing CTF accounts will continue until maturity at age 18 with maturities commencing from September 2020.

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

Year Ending	Number of Members (Excl CTF)	Number of Policies (Excl CTF)
31.12.16	10,678	13,654
31.12.17	11,294	14,837
31.12.18	11,635	15,604

Year Ending	Number of New Members (Excl CTF)	Number of New Policies (Excl CTF)
31.12.16	1,130	1,915
31.12.17	1,092	1,996
31.12.18	833	1,614

Year Ending	Number of New CTF Accounts	Number of CTF Accounts
31.12.16	9	63,612
31.12.17	13	63,480
31.12.18	9	63,349

Premium Income and Assets

Given market sentiment seen throughout 2018, expectations were revised and although the Society received less premium income than 2017 the Committee are satisfied with achieving a respectable £16.8m for the year. Your Committee monitors new business volumes throughout the year and recognise that although growth in premium income is desirable, it should not be attained at the expense of maintaining competitive bonus rates for existing members and maintaining the Society's financial strength.

Subscriptions and external transfers to the Investment ISA generated circa £10.3 million (61%) of the total. This included ISA top-ups of around £3.4 million from existing members.

Strategic Report - continued
For the year ended 31 December 2018

Premium Income and Assets - continued

The growth in our business resulted in a 4.3% increase in total assets at the end of the year to a record £144.3 million. Excluding the CTF, the Society's assets increased by 9.7% to £105.3 million.

Regular premiums, mainly to the Tax Exempt Savings Plan, amounted to £3 million and, therefore, accounted for around 18% of the total. We remain one of the top performers in the with-profits regular premium pure endowment league tables over 10, 15, 20 and 25 years.

The Society's unit-linked Stakeholder Child Trust Fund attracted premium income of £0.49 million during the year, made up of transfers from other providers and additional subscriptions to existing accounts.

The following tables show how income and assets have developed in recent years:

Year Ending	Premium Income (Excl CTF) £'000	Assets (Excl CTF) £'m
31.12.16	17,541	76.6
31.12.17	19,662	96.0
31.12.18	16,800	105.3

Year Ending	CTF Premium Income £'000	Total Assets (Incl CTF) £'m
31.12.16	438	113.8
31.12.17	476	138.4
31.12.18	492	144.3

Policy Returns and Bonuses

The Committee declared annual policy bonuses worth in excess of £1.5 million for members in 2018 and all with-profits bond, ISA and endowment policies had their interim bonus rates declared in full. The Committee also maintained final bonus rates on bonds encashed after five years, maintained the final bonus rates on maturing regular premium endowments, extended the qualifying final bonus years for the Investment ISA and introduced final bonus payments to Junior ISAs which have been in force for at least five years.

Investments

2018 proved to be more of a challenging year for investment markets, particularly looking at the last three months of the year. The geo-political tensions between the US and China had a major impact on global investment performance and the continued uncertainty around Brexit fuelled volatility in the UK markets. The close of 2018 saw a fall in the FTSE 100 to 6728.10 – 12.5% lower than 12 months earlier (7687.77); its biggest fall in a decade. Notwithstanding, the Society is financially robust and has a strong mix of investments which do not overly rely on one class of asset. One of the many benefits of our main product set is that rates do not fluctuate in line with the stock markets and we try to manage the with-profits fund to allow for years of reduced investment performance, thereby smoothing out returns.

During 2018 the Society disposed of three of its commercial properties to consolidate the portfolio. The Society now owns 42 geographically diversified commercial properties, generating stable rental yields, with a total value of circa £37.7 million. Last year the Society reported an initial £2 million investment in the Schroder UK Property Fund in order to diversify the property portfolio by increasing exposure to London and the South East. In 2018 we invested a further £1.5m into the fund. Taking into account the overall performance of the direct portfolio and UK Property Fund combined, the Society managed to achieve a healthy 6% return on its property portfolio.

Strategic Report - continued
For the year ended 31 December 2018

Investments - continued

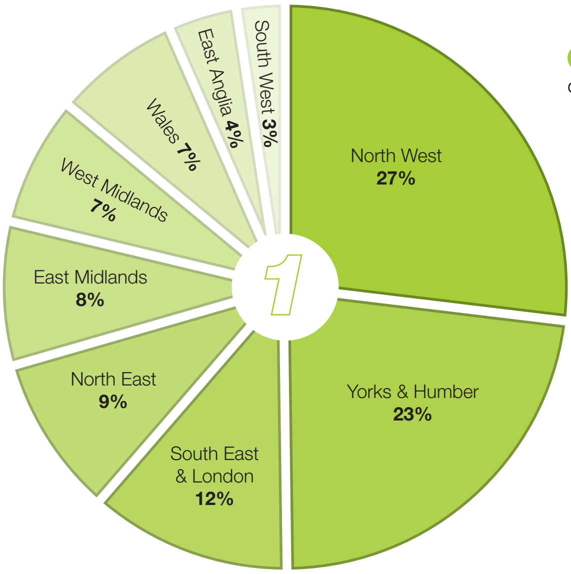

Chart 1:
% of property portfolio value within each region

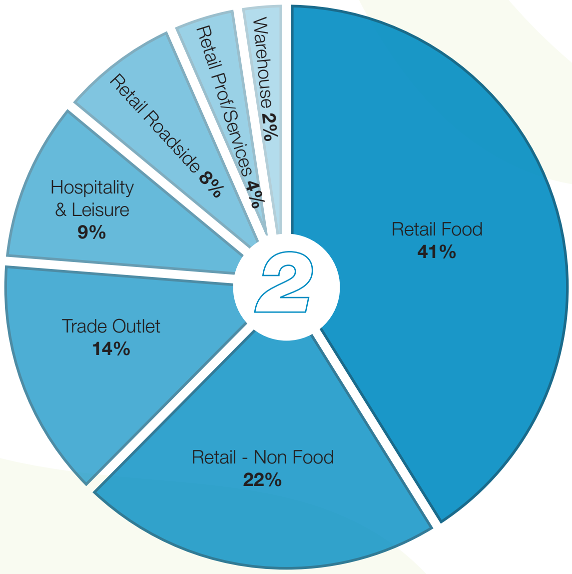

Chart 2:
% of property portfolio value within each sector

The Society's listed investments are managed professionally by Investec Wealth & Investment Ltd in accordance with a Committee approved mandate. The Society invested new money of £8.6 million through Investec in 2018 and after adjusting for the new money added during the year the portfolio, now totalling £46 million, produced a total annual loss after charges (including income) of 4.4%. After several years of stable growth we saw markets claw back at some of those unrealised gains.

A couple of years ago the Committee took the decision to invest in overseas markets and deposited funds in the Fidelity Emerging Markets Fund, adding a further £1m in 2018. In order to continue with this process and increase the overall fund's diversification the Committee approved an investment of £2.5m into the Fidelity Global Special Situations Equity Fund, which is mainly exposed to the US equities market.

The Society's available capital decreased to £14.768 million but we have maintained a healthy solvency capital ratio of 152%; thereby retaining a strong financial base. The Society's total investment income and realised gains / losses on investments was £4.86 million (an increase of 6% on last year) and the overall return on the non-CTF assets for the year was -0.47% (2017: 8.01%, 2016: 7.22%).

Our investment advisers believe that market performance will improve in 2019, with an end to the Brexit uncertainty potentially leading to a 'Brexit bounce'. The Committee will continue to manage the potential volatility by focusing on quality, balance and diversity when making investment decisions. The Committee makes investment decisions for the long-term and, whilst remaining alert to short-term market volatility, we are focussed on maintaining consistent returns and the security of our members' funds. Despite a less favourable year for our investment portfolio, through the process of smoothing, combined with effective cost control, we are able to declare the interim annual bonuses on all policy types for 2018. We are also boosting pay-outs to members through the payment of final bonuses where appropriate.

Strategic Report - continued
For the year ended 31 December 2018

Investments - continued

Asset Mix

The next table shows the asset split of the Society's investment fund at the end of 2018, with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

	2018	2017	2016
	%	%	%
Property	41.59	45.01	48.76
Mortgages on land and buildings	0.98	1.07	1.48
Listed investments: - equities	27.15	25.86	25.61
- fixed interest	25.43	22.39	17.75
- alternative assets	2.33	2.97	3.32
Cash (excluding current account funds)	2.52	2.70	3.08
	100.00	100.00	100.00

The Committee again increased the size of the fixed interest portfolio by investing surplus cash in Government Gilts and Corporate Bonds. This was a prudent move starting in 2016 to achieve a reduction in the risk profile of the asset portfolio. The percentage held in equities was also increased primarily due to an increased exposure to overseas markets. The proportion held in property was reduced in order to improve the overall diversity of the fund.

The Society seeks to adopt an ethical approach to investing and it is our aim not to invest knowingly or directly in industries relating to armaments, tobacco, gambling or pornography.

Summary

To conclude, the Society has performed very well in 2018 and we are continuing to grow our assets and membership, whilst maintaining excellent member satisfaction levels. I would like to thank and congratulate Tony Burdin for leading the Society through an extremely successful period during his tenure as Chief Executive and wish him well in his retirement. I would also like to welcome Paul Galloway to the executive team, Stuart Plant-Hately to the Committee and thank our loyal employees for their hard work and dedication, and our members and the Committee for their continued support and encouragement.

I am delighted to take the Society forward and confident that we are well placed to grow our extraordinary business through 2019 and thereafter.

Jamie Bellamy
Chief Executive

Strategic Report - continued
For the year ended 31 December 2018

STRATEGIC MANAGEMENT

Business Model

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

- Direct from the Society or its introducers
- Via the Society's website: www.sheffieldmutual.com
- Professional financial advisers

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

The Society seeks to attract members by demonstrating higher potential investment returns over the life of a policy and aims to retain them through a combination of performance, following high standards of ethics and principles, and delivering consistently high levels of personal service. The Society has a three-strand distribution model, which can be summarised as follows:

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

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

The Society's key strategic priorities are as follows:

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

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.

Strategic Report - continued
For the year ended 31 December 2018

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.

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

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 2018 we donated more than £10,000 to various charities and good causes and we have made a commitment to increase our support in 2019.

The Society will be looking to modernise its structure over the next couple of years through the process of incorporation. This does not mean that the Society will lose its mutual status but allows for a more efficient approach to the running of the business. The main difference being that Trustees are no longer required; the Society itself would be able to directly own assets. We aim to start the process over the course of 2019 and will inform our members of any progress in future communications. Needless to say, the Society will remain a successful independent friendly society, financially secure, ethically minded, with strong prospects for growth.

Committee's Report
For the year ended 31 December 2018

COMMITTEE GOVERNANCE

Committee of Management

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

Mrs J Barber	Committee / Chairman (until 27 Jul 2018) / (Vice Chairman (from 27 Jul 2018)
Mr J Bellamy	Committee / Finance Director (until 31 Dec 2018)
Mr S Birch	Committee
Mr A R Burdin	Committee / Chief Executive (until 31 Dec 2018)
Mr S Hindmarsh	Committee / Vice Chairman (until 27 Jul 2018) / (Chairman (from 27 Jul 2018)
Mrs S Johnson	Committee
Mr M Lunn	Committee / Trustee
Mr N Spawforth	Committee / Trustee

Subsequent to the Society's financial year end, Jamie Bellamy was appointed as Chief Executive (1 January 2019), and Paul Galloway and Stuart Plant-Hately were co-opted onto the Committee (26 January 2019). Biographies for each of these are shown on pages 18-20 and the Committee believes that the balance of skills and experience of the members is appropriate to the current requirements of the business. Furthermore, it believes that all Committee members are independent in character and judgement.

In 2018 the Committee comprised of the non-executive Chairman, two Trustees, three other non-executive members and two executive members (Chief Executive and Finance Director).

The Committee determines the strategic direction of the Society and reviews its operating and financial position. The Committee met on ten occasions during 2018 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-today 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 staff members if required.

Committee's Report - continued
For the year ended 31 December 2018

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, 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.

Committee's Report - continued
For the year ended 31 December 2018

Finance & Risk Sub-Committee (Until 31 Dec 2018)

Throughout 2018 the Society had a Finance & Risk Sub-Committee, which met monthly and comprised of the two Trustees, the Society's Chairman and one other Committee member by rotation, plus the Chief Executive and Finance Director. Matters which were dealt with by this Sub-Committee were occasionally discussed by the full Committee depending upon the timing of meetings. The Sub-Committee was not chaired by the Society's Chairman and the position of Sub-Committee Chairman was rotated between the Trustees on a bi-annual basis. The Sub-Committee's main responsibilities were:

- to review monthly Income & Expenditure
- to review the Balance Sheet on a quarterly basis
- to consider and review recommendations from, and performance of, the Society's investment 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
- to monitor the Society's risks, ensuring that they are managed effectively
- to monitor outstanding audit observations, ensuring that any recommended actions are carried out

The above Sub-Committee was in place until 31 December 2018, however from 1 January 2019 the Sub-Committee was split into two separate committees: the Finance & Investments Sub-Committee and the Audit & Risk Sub-Committee. It is expected that these Sub-Committee's will enhance independence in communication and oversight particularly around the internal and external audit process.

Finance & Investments Sub-Committee (From 1 Jan 2019)

The Sub-Committee's main responsibilities and composition are largely similar to those of the previous Finance & Risk Sub-Committee but for clarity are outlined below. The Sub-Committee will meet on at least 11 occasions during the year and will consist 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 will not be chaired by the Society's Chairman and the position of Sub-Committee Chairman will be 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

Committee's Report - continued
For the year ended 31 December 2018

Audit & Risk Sub-Committee (From 1 Jan 2019)

This Sub-Committee will monitor and act as the risk management function and provide oversight of the Society's financial reporting process and internal controls. It will comprise of at least three non-executive members and will meet on at least three occasions during the year. Executives will attend by invite only. The Sub-Committee will not be chaired by the Society's Chairman and the position of Sub-Committee Chairman should be held by a member 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 Finance & Risk Sub-Committee in 2018 and now the Audit & Risk Sub-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 Finance & Risk / 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 at least annually by receiving reports from an external compliance consultant and our internal auditors, KPMG. The internal auditors carry out an independent risk-based audit each year in accordance with industry standards and guidance, including several days on site, and work to a Committee approved programme designed to evaluate and improve the effectiveness of risk management, controls and governance processes. Their reports are considered by the full Committee and action taken where appropriate.

Committee's Report - continued
For the year ended 31 December 2018

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. In 2018 the auditors liaised with the Committee via one of the Society's Trustees during the audit planning and completion stages. From 1 January 2019 the auditors will liaise with the Chair of the Audit & Risk Sub-Committee. 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.

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 2019.

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 2018.

Complaints by Members

The Society has a documented complaints procedure and aims to treat its members fairly. There were three reportable complaints in 2018, all of which were resolved internally to the members' satisfaction.

Committee's Report - continued
For the year ended 31 December 2018

Attendance at Meetings

	Committee		Finance	
	Number of Meetings	**Attended**	**Number of Meetings**	**Attended**
J Barber	10	9	10	10
J Bellamy	10	10	12	12
S Birch	10	7	5	3
A Burdin	10	10	12	12
S Hindmarsh	10	10	9	9
S Johnson	10	10	7	7
M Lunn	10	9	12	11
N Spawforth	10	9	12	11

*The Finance & Risk Sub-Committee met on a total of 12 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.

Annotated UK Corporate Governance Code

The Society has adopted the Annotated Version of the UK Corporate Governance Code for Mutual Insurers (the "Code") and submits a monitoring questionnaire, along with other mutual societies, to the Association of Financial Mutuals, who will in turn report to the regulators. The Chairman ensures that the Code's principles relating to the role and effectiveness of the Committee are appropriately and proportionately applied and can confirm compliance with the Code for 2018, with the exception of the following:

1. There is no Senior Independent Committee member, but the Vice Chairman has been nominated to receive any items from members or other Committee members, where they do not feel that an issue can be resolved by either the Chief Executive or Chairman.

2. Proportionate to the size and complexity of the business, the Society does not have a distinct Nomination and Remuneration Committee but matters which would be dealt with by this committee are reviewed by the full Committee. In 2018 the Society also did not have a separate Audit Committee, but audit and risk related issues were monitored by the full Committee. An Audit and Risk Committee was however formed on 1 January 2019.

3. Rather than being subject to annual election, Committee members are subject to election every three years in accordance with the Society's Rules. However, Committee members who have served in their position for more than nine years, providing they are still providing balanced views on issues facing the Society, will offer themselves for annual re-election.

4. The Code suggests that the evaluation of the board should be externally facilitated at least every three years. The Committee believes that this is disproportionate to the Society's scale of operations, but the documentation used for the internal evaluation, which is led by the Chairman, has been reviewed externally.

5. A significant proportion of executive directors' remuneration is not structured so as to link rewards to corporate and individual performance, as the executive team are responsible for carrying out various functions, including compliance, secretarial, risk management and financial accounting. The Committee is of the view, therefore, that significant executive incentives and bonuses could result unintentionally in behaviours that would be in conflict with the Society's culture and risk appetite.

6. As the executive team are very close to the day-today operations of the business and most Committee members have regular contact with members, we have not established formal member forums or panels in order to ensure that the views of members are understood and communicated. Our member services team listens carefully to feedback from members and ensures that views are communicated to Committee members.

Committee's Report - continued
For the year ended 31 December 2018

Chairman's Statement on Corporate Governance

It is my responsibility to ensure that the Society applies the principles of the Code across the business appropriately. The Committee and I may judge that some of the Code provisions are disproportionate given the size and complexity of the business. However, as set out in the statements above, the Committee aims to apply the spirit of the principles and provisions of the Code in a manner with less onerous resource implications. Moreover, the Committee's intention is to adopt the highest standards of corporate governance for an organisation of our scale and in the best interests of our members.

S 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 as appropriate. In addition, each member was consulted to assess the performance of the Committee as a whole and the Sub-Committee. The Vice Chairman co-ordinates the responses to a questionnaire relating to the performance of the Chairman in carrying out his duties and the results are discussed without the Chairman being present. The performance of the executive team are 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 skills requirements. Subject also to the Society's rules, new appointments to the Committee are being made on the basis of three-year terms. Where Committee members have held their position for more than nine years, they will be subject to re-election at the Society's Annual General Meeting on a year-by-year basis. The Society has 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 will 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 were no new appointments to the Committee during 2018 but two members were recruited to join the Committee in January 2019 in anticipation of Mr M Lunn and Mrs S Johnson retiring in June 2019, with both reaching 70 years of age, and Mr T Burdin retiring as Chief Executive. Mr Stuart Plant Hately, a professional investment manager and qualified accountant, joined the Committee on 26 January 2019. Stuart will be offering himself for election at the Annual General Meeting and the Chairman recommends that he should be elected to replace the skills gap left by Mr M Lunn on his retirement and to add investment management expertise to the Committee. Mrs J Barber has been nominated to replace Mr M Lunn as a Trustee.

Mr Tony Burdin retired as Chief Executive on 31 December 2018 but was appointed as a Non-Executive on 1 January 2019. Tony will also be offering himself for re-election at the AGM and the Chairman recommends that he should be re-elected. Tony's experience within the sector and at the Society is invaluable for the Committee and his skill set particularly around risk and compliance fills the gap left by Mrs S Johnson on her retirement. The vacancies were filled through an open recruitment process, with an advertisement in the Society's 2018 Newsletter.

Committee's Report - continued
For the year ended 31 December 2018

Mr Jamie Bellamy, Finance Director from October 2015, replaced Tony as the Chief Executive as of 1 January 2019 after receiving approval from the Committee and completing a thorough handover process. The Finance Director role will fall away, however Jamie will retain finance oversight. He will be offering himself for re-election and the Chairman recommends that he should be re-elected.

Mr Paul Galloway was recruited as Chief Operating Officer in August 2018 and joined the Committee in January 2019. Paul will also be offering himself for election at the AGM and the Chairman recommends that he should also be elected. Paul has previous experience of managing risk, governance and compliance within the building society sector.

On 27 July 2018 Mr Stephen Hindmarsh became Chairman replacing Mrs Janet Barber who took up the role of Vice-Chairman. There are a further two Committee members offering themselves for re-election at the Annual General Meeting (AGM) and the Chairman confirms that, following formal performance evaluations, the individuals remain effective and that they continue to demonstrate commitment and independent judgement to the role. He recommends therefore that they should be re-elected.

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 2018 the non-executive Committee members were remunerated for their attendance at meetings, with a daily meeting attendance fee of £75 for the Finance & Risk Sub-Committee, £100 for the Committee of Management and £150 if attending both meetings on the same day. They were also reimbursed for travel costs. Retainer fees were £7,500 for the Chairman, £7,000 for the Trustees and £5,000 for other non-executive Committee members. The fees are neither pensionable nor performance-related. The remuneration of the Chairman is decided by other Committee members and the Committee agrees their own fee rates. Non-executive fee levels are reviewed triennially, and a review was carried out in November 2018, which will apply from January 2019 and fixed for a further three years. It was agreed, that the above attendance and retainer fees will increase in line with inflation (approximately 10%) since the last review carried out three years ago.

The executive team 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 £5,000 for the Finance Director, which may be paid as pension contributions. None of the executive team served as non-executive directors elsewhere during the year.

The Committee believes that the current remuneration structure, introduced in 2016 following an independent third-party review, provides appropriate levels of remuneration sufficient to reflect the workloads and responsibilities of non-executives, whilst also ensuring we can recruit, retain and motivate executives with the required skills, experience and qualities to continue to run the Society successfully for the benefit of its members.

Committee's Report - continued
For the year ended 31 December 2018

Committee Members' Emoluments

	Salary/Fees & Expenses £	Taxable Benefits £	Pension Contributions £	2018 Total £	2017 Total £
Chairman					
J Barber (Until 27 Jul 18)	8,095	-	-	8,095	9,705
S Hindmarsh (From 27 Jul 18)	8,129	-	-	8,129	6,804
Trustees					
T Burton (Until 10 Jun 17)	-	-	-	-	4,855
M Lunn	8,544	-	-	8,544	8,854
N Spawforth (From 10 Jun 17)	8,803	-	-	8,803	7,853
Committee					
S Birch	6,529	-	-	6,529	7,128
S Johnson	6,688	-	-	6,688	6,638
Chief Executive					
A Burdin	70,688	-	26,859	97,547	149,588
(Jan – Jun pro rata at 28 hrs per week / Jul – Dec pro rata at 14 hrs per week)					
Finance Director					
J Bellamy	77,687	-	4,873	82,560	64,250

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

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 to 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.

Committee's Report - continued
For the year ended 31 December 2018

Members of the Committee - continued

Melvyn Lunn, FCA MCMI AIC CIHM - Trustee

Melvyn qualified as a Chartered Accountant over 40 years ago and has worked both in the public and private sectors and latterly in private practice until his retirement in 2015. He holds a number of non-executive and trustee positions, including South Yorkshire's Community Foundation (non-remunerated director and a trustee). He is Hon Treasurer of Silverwood Scout Camp (non-remunerated), where he is also a trustee. Melvyn is also Chair of the Doncaster West Development Trust (non-remunerated), Chair of the Joint Independent Audit Committee of the South Yorkshire Police and Crime Commissioner and Chief Constable (remunerated). He is married and has two sons. Melvyn retires from the Committee after the 2019 AGM.

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 Chairman 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 also holds directorships for Brenmull Ltd, Locan Properties Ltd and Lagmore Properties Ltd. None of these companies are connected with the Society and there are no conflicts of interest. 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 will continue to oversee the Society's finance function. Jamie qualified as a certified accountant 6 years ago within a large regional accountancy firm (BHP), 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 and son in South Yorkshire.

Paul Galloway, BA (Hons) – Chief Operating Officer

Paul joined the Society in August 2018 as Chief Operating Officer and is responsible for Risk and Compliance Management, as well as Member Services, Operations and IT. 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. He also sits on the board of trustees for RSPCA Sheffield as a trustee and vice-treasurer, as well as providing consultancy to their fundraising team. Paul enjoys music, films, comedy and hiking, and lives at home in South Yorkshire with his three cats.

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 Chairman for two terms. Stephen's hobbies include theatre, DIY, gardening and historic vehicle preservation.

Committee's Report - continued
For the year ended 31 December 2018

Members of the Committee - continued

Anthony Robert Burdin

Tony joined the Society in March 2009 as Chief Executive and for the past ten years he led 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. Tony retired as Chief Executive in December 2018 and, given his knowledge and experience, was invited to remain on the Committee as a non-executive Committee member. 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.

Sheila Johnson, FCIB

Sheila has over 40 years experience in the financial services sector, most of them with building societies. More recently, Sheila held various senior positions with The Mansfield Building Society and was the Compliance and Employee Development Executive until her retirement at the end of 2008. She has been a member of the Society's Committee since 2009 and was Vice Chairman in 2011 and Chairman from 2012 to 2015. Sheila lives in South Yorkshire. Sheila retires from the Committee after the 2019 AGM.

Stuart Plant Hately, ACA, FCSI, BSc (Hons)

Stuart joined the Society in January 2019 and has extensive investment, risk and control management experience. Stuart recently held a directorship at Investec Wealth & Investment Fund Managers Ltd. Prior to that Stuart 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. When Stuart can find the time and inclination he enjoys mountain biking, swimming and skiing.

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 2018 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

S Hindmarsh – Chairman 22 March 2019

Independent Auditors' Report To The Members of Sheffield Mutual Friendly Society For the year ended 31 December 2018

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 2018, 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 2018 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 Auditor's 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Committee of Management's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Committee of Management have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

Independent Auditors' Report To The Members of Sheffield Mutual Friendly Society - continued For the year ended 31 December 2018

Key audit matters - continued

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- the integrity of the input data and application of suitable methodology, modelling processes and assumptions in the calculation of the Society's long term technical provision liabilities;
- revenue recognition, including the timing, completeness and accounting of premium income; and investment income; and
- the risk of management override of internal controls. International Standards on Auditing (UK) state that this risk must always be treated as significant.

Our application of materiality

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

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

When establishing our overall audit strategy, we determined an overall level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined planning materiality for the Society to be £310,000 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 £217,000.

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

An overview of the scope of our audit

Our audit scope focused on the principal activities of the Society which are undertaken from one location. The audit team commenced an interim audit before the Society's year end in order to undertake a significant proportion of the planned transactional testing.

This was followed up shortly after the year end with a further audit site visit, once our planned procedures had been updated for year-end figures.

Independent Auditors' Report To The Members of Sheffield Mutual Friendly Society - continued For the year ended 31 December 2018

An overview of the scope of our audit - continued

We scoped our responses to the significant risks identified above in the following ways:

- we engaged the services of a suitably qualified and experienced 'Reviewing Actuary' to review and challenge the methodology, assumptions and calculations of the Actuarial Function Holder's long-term business provision liabilities. We also tested the integrity of the actuarial data extracted from the Society's policy data.

- we carried out substantive testing on the Society's premium income relating to existing policies, new policies written in the year and surrendered policies, as well as analytical and cut-off procedures to ensure revenue recognition policies complied with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). With regards to investment income we performed a mixture of substantive and proof in total testing to conclude on whether investment income was complete and accounted for in the correct period; and

- we used audit analytics software to interrogate the Society's general ledger data and focused on transactions that were of a higher risk of material misstatement to the financial statements. We also performed a detailed review of bank transactions, reviewed key accounting estimates and financial statement disclosures for evidence of management bias and/or error.

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 auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Committee of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Independent Auditors' Report To The Members of Sheffield Mutual Friendly Society - continued For the year ended 31 December 2018

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.

- Corporate governance statement:

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the provisions of the UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

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.

Auditor's 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 auditor's 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.

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 Regulation Authority's regulations, the Solvency II regulations and the UK tax legislation.

Independent Auditors' Report To The Members of Sheffield Mutual Friendly Society - continued For the year ended 31 December 2018

Auditor's responsibilities for the audit of the financial statements - continued

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/auditscopeukprivate. This forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Committee of Management on 24 August 2017. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 14 years.

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.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 Actuaries and Consultants ("OAC"). The Society has requested Ms. Spinks to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Ms. Spinks is not a member of the Society and has no other financial or pecuniary interests in the Society, with the exception of fees paid to OAC Actuaries and Consultants ("OAC") for professional services, which amounted to £149,346 in 2018 (2017: £173,775).

Income and Expenditure Account
For the year ended 31 December 2018

	Note	2018 £	2017 £
Technical Account - long term business			
INCOME			
Earned premiums	5	**16,800,222**	19,662,258
Investment and other income	6	**4,924,361**	4,594,312
Unrealised investment gains	7	**100,584**	7,293,526
Total Income		**21,825,167**	31,550,096
EXPENDITURE			
Claims incurred	8	**(5,312,072)**	(5,204,555)
Net operating expenses			
Acquisition expenses	9	**(685,019)**	(645,589)
Administrative expenses	9	**(657,768)**	(626,886)
Investment expenses and charges			
Investment management expenses	10	**(211,781)**	(258,142)
Taxation attributable to long term business	11	**(77,045)**	(85,674)
Unrealised losses on investments	14	**(9,287,057)**	(620,964)
Realised losses on disposal of investment properties		**(62,862)**	-
Change in long term business provision	17	**(8,204,154)**	(22,167,844)
Transfer from / (to) fund for future appropriations	18	**2,672,591**	(1,940,442)
Balance on the Technical Account		-	-

All income and expenditure relates to continuing operations.

The above results relate wholly to continuing activities. The Society had no other recognised gains or losses other than those included above in the Technical Account and the movements in the Child Trust Fund Stakeholder Fund as shown in note 15.

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

Balance Sheet
As at 31 December 2018

	Note	2018 £	2017 £
ASSETS			
Investments			
Land, buildings and commercial mortgages	15	**38,623,050**	39,813,520
Other financial investments	15	**60,263,442**	50,899,676
		98,886,492	90,713,196
Assets held to cover linked liabilities	15	**38,976,683**	42,387,596
Other assets			
Fixed assets	16	**413,772**	332,613
Cash at bank and in hand		**5,269,395**	4,334,328
Prepayments and accrued income			
Accrued interest and rent		**200,681**	164,928
Other prepayments and accrued income		**559,047**	473,258
Total Assets		**144,306,070**	138,405,919
LIABILITIES			
Technical provisions			
Long term business provision	17	**(93,163,478)**	(80,963,468)
Technical provision for linked liabilities	17	**(35,217,712)**	(38,842,884)
Fund for future appropriations	18	**(14,908,258)**	(17,580,849)
Creditors			
Other creditors including taxation and social security		**(250,580)**	(264,994)
Accruals and deferred income	19	**(766,042)**	(753,724)
Total Liabilities		**(144,306,070)**	(138,405,919)

The financial statements were approved by the Committee of Management on 22 March 2019

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

Notes to the Financial Statements
For the year ended 31 December 2018

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 1 to 3 months.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(e) Investments - continued

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	33.33% per annum straight line

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

(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.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(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.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

2. Critical accounting estimates and judgements - continued

(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.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

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 2018 in conformity with the requirements of Solvency II.

The Society was in compliance with capital requirements imposed by regulators throughout the financial year.

The capital requirement of the Society is determined by its exposure to risk and solvency criteria established by management and statutory regulations. The table below sets out the capital resources requirement and the Society's available capital.

	2018	2017
	£000	£000
Solvency Capital Requirement	**9,735**	10,526
Available capital resources	**14,908**	17,581
Less assets inadmissible for Solvency II	**(140)**	(427)
Total available capital resources	**14,768**	17,154
Solvency cover	**152%**	163%

Notes to the Financial Statements - continued
For the year ended 31 December 2018

3. Capital Statement - continued

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

	2018	2017
	£000	£000
Opening fund for future appropriation	**17,581**	15,640
Transfer to / from fund for future appropriation from Income and Expenditure account	**(2,673)**	1,941
Closing fund for future appropriation	**14,908**	17,581

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

(a) Basis of calculation of available capital resources

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

As shown on page 32, the capital resources requirement amounts to £9.735m and is determined in accordance with capital requirements as defined by Solvency II. As at 31 December 2018 the Society's capital resources were 152% of its capital requirements.

Approximately 42% of the fund excluding the Child Trust Fund business is held in property and approximately 29% is held in equities. These are sensitive to market movements in general. About 25% 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 2018.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(a) Basis of calculation of available capital resources - continued

The main assumptions used in the statutory valuation carried out as at 31 December 2018 are set out below.

• Valuation Interest Rate
Solvency II risk free yield curve

• Mortality
All applicable tables: 25% 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%	-645
Expense allowances	-10%	645
Change in rate of mortality (%ELT)	10%	-237
Change in rate of mortality (%ELT)	-10%	246
Change in fixed interest yields	EIOPA shock up	1,661
Change in fixed interest yields	EIOPA shock down	-876
Fall in fixed interest asset value	-10%	-1,179
Fall in equity values	-10%	-1,933
Fall in property values	-10%	-1,925

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 29% of its assets excluding CTF in equities and a 10% fall in values leads to a reduction in available capital of £1.933m.

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.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(c) Analysis of change in capital resources

	2018	2017
	£000	£000
Total available capital resources at 1 January	**17,581**	15,640
Premiums less claims and expenses	**10,145**	13,185
Investment income less tax	**4,572**	4,251
Unrealised (losses) / gains on investments	**(9,186)**	6,673
Change in mathematical reserves	**(8,204)**	(22,168)
Total available capital resources at 31 December	**14,908**	17,581

4. Risk Management

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

(a) Insurance risk

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

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

The Society manages insurance risk by:

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

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(a) Insurance Risk - continued

i) 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.

	2018	2017
	£000	£000
Sickness and death	**1,047**	1,410
Pure endowments	**14,537**	14,195
Endowments	**728**	715
Taxable saving plans	**6,742**	6,216
Investment bond	**20,489**	18,396
ISA	**49,924**	40,793
Pension bond	**961**	1,076
Other	**955**	963
Total	**95,383**	83,764

(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.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(b) Financial risk management - continued

i. Market risk

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

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

The Society's Finance & Risk Committee / 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 by sector and region.

	United Kingdom £	Asia & Africa £	North & South America £	Europe Excluding UK £	Grand Total £
Oil & Gas Producers	2,484,259	-	-	-	2,484,259
Basic Materials	1,211,803	-	-	-	1,211,803
Industrials	710,673	-	-	-	710,673
Consumer Goods	2,348,528	-	-	-	2,348,528
Health Care	1,226,945	-	-	-	1,226,945
Consumer Services	802,235	-	-	-	802,235
Telecommunications	305,960	-	-	-	305,960
Utilities	337,600	-	-	-	337,600
Financials	3,987,992	-	-	-	3,987,992
Technology	300,550	-	-	-	300,550
Investment & Unit Trusts	4,694,582	-	-	-	4,694,582
Property	1,340,345	-	-	-	1,340,345
Infrastructure	975,332	-	-	-	975,332
Open Ended Investment Companies	257,332	4,951,410	2,162,682	1,151,116	8,522,540
Total	**20,984,136**	**4,951,410**	**2,162,682**	**1,151,116**	**29,249,344**

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(b) Financial risk management - continued

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.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(b) Financial risk management - continued

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 £	Emerging Economies £	Grand Total £
British Government funds	4,801,251	-	-	-	4,801,251
UK fixed interest	17,788,005	-	-	-	17,788,005
Overseas fixed interest	-	123,100	1,390,499	793,147	2,306,746
Total	**22,589,256**	**123,100**	**1,390,499**	**793,147**	**24,896,002**

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.

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(b) Financial risk management - continued

vii. Fair value

The principal financial assets held at 31 December 2018, analysed by their fair value hierarchies were:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment properties	-	-	37,652	**37,652**
Debt securities	24,896	-	-	**24,896**
Equity securities	18,411	-	-	**18,411**
Emerging market securities	6,153	-	-	**6,153**
UK Real Estate fund	-	3,613	-	**3,613**
Global Special Situations fund	2,370	-	-	**2,370**
Alternative assets	2,316	-	-	**2,316**

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

5. Earned Premiums

	2018 £	2017 £
Single Premium Income	**13,552,047**	16,551,624
Regular Premium Income	**3,248,175**	3,110,634
	16,800,222	19,662,258

6. Investment and other income

	2018 £	2017 £
Rental income receivable	**2,534,681**	2,528,040
Income from listed investments	**1,642,098**	1,259,323
CTF Unit Linked management charges received	**592,898**	544,587
Mortgage interest receivable	**58,319**	57,945
Income from UK Real Estate Fund	**57,335**	10,486
Bank interest receivable	**21,831**	10,526
Gain on the sale of listed investments	**17,199**	172,524
Gain on disposal of investment property	**-**	10,881
	4,924,361	4,594,312

Notes to the Financial Statements - continued
For the year ended 31 December 2018

7. Unrealised Investment Gains

	2018	2017
	£	£
Net unrealised gain on UK Real Estate Fund	**75,584**	-
Net unrealised gain on revaluation of Society's office	**25,000**	-
Unrealised gain on listed investments		
-With Profits	**-**	2,962,107
-Unit Linked	**-**	4,331,419
	100,584	7,293,526

8. Claims Incurred

	2018	2017
	£	£
Endowments and matured policies	**2,280,839**	1,885,394
ISA withdrawals	**1,987,854**	1,676,206
Death benefits	**679,370**	1,174,374
Surrendered policies	**290,486**	402,019
Income Bond withdrawals	**66,874**	60,980
Additional benefits	**6,649**	5,462
Sickness benefits	**-**	120
	5,312,072	5,204,555

Notes to the Financial Statements - continued
For the year ended 31 December 2018

9a. Acquisition Expenses

	2018	2017
	£	£
Salaries, including national insurance	**199,936**	188,080
Pension contributions	**25,792**	28,329
Internal auditors and compliance consultant's fees	**3,937**	4,621
Actuary's fees	**37,337**	43,444
Auditor's fees	**13,980**	15,000
Legal and professional fees	**11,058**	6,180
PRA / FCA Regulatory fees	**9,804**	11,562
Committee of Management fees and expenses	**11,697**	12,959
Computer running costs	**26,930**	15,951
Website and software development	**4,594**	776
Postage	**8,023**	8,527
Printing and stationery	**5,750**	5,239
Insurance	**1,816**	2,472
Motor vehicle and travel costs	**2,199**	1,960
Lodge expenses	**72**	115
Bank charges	**5,242**	4,633
Miscellaneous expenses	**1,069**	942
Charitable donations and gifts	**12,458**	10,724
Office expenses	**24,427**	24,217
Entertaining	**226**	357
Advertising and promotional costs	**130,150**	118,275
Personnel and training	**8,190**	1,916
Fees and commissions paid	**133,902**	135,104
Depreciation - office furniture and equipment	**1,758**	384
Depreciation - motor vehicles	**277**	369
Depreciation - computer equipment	**2,707**	1,765
Depreciation - website development	**1,688**	1,688
	685,019	645,589

Notes to the Financial Statements - continued
For the year ended 31 December 2018

9b. Administrative Expenses

	2018	2017
	£	£
Salaries, including national insurance	**199,935**	188,081
Pension contributions	**25,792**	28,329
Internal auditors and compliance consultant's fees	**11,812**	13,862
Actuary's fees	**112,010**	130,331
Auditor's fees	**41,940**	45,000
Legal and professional fees	**33,175**	18,539
PRA / FCA Regulatory fees	**29,411**	34,685
Committee of Management fees and expenses	**35,091**	38,877
AGM expenses	**9,601**	10,077
Computer running costs	**54,676**	32,386
Website and software development	**9,326**	1,576
Postage	**16,290**	17,312
Printing and stationery	**11,673**	10,637
Insurance	**3,687**	5,020
Motor vehicle and travel costs	**733**	653
Subscriptions	**4,088**	3,961
Lodge expenses	**215**	344
Bank charges	**15,726**	13,899
Miscellaneous expenses	**2,170**	1,912
Office expenses	**24,428**	24,217
Entertaining	**226**	357
Personnel and training	**8,190**	1,916
Depreciation - office furniture and equipment	**5,275**	1,151
Depreciation - motor vehicles	**830**	1,108
Depreciation - computer equipment	**8,123**	5,295
Depreciation - website development	**5,067**	5,067
Recoverable VAT on expenses	**(11,722)**	(7,706)
	657,768	626,886

Notes to the Financial Statements - continued
For the year ended 31 December 2018

10. Investment Management Expenses

	2018	2017
	£	£
Investment manager charges / commission	161,910	132,763
Property related charges	49,871	39,679
Irrecoverable debt on investment property	-	85,700
	211,781	258,142

11. Taxation

	2018	2017
	£	£
Current Tax:		
UK corporation tax	60,000	80,000
UK corporation tax re prior years	17,045	5,674
Corporation tax charge	77,045	85,674

12. Staff costs

	2018	2017
	£	£
Salaries and wages	365,398	343,188
Social security costs	34,473	32,973
Pension costs	51,584	56,657
	451,455	432,818
Average number of employees:		
Executive	2	2
Administration	10	9
	12	11

Notes to the Financial Statements - continued
For the year ended 31 December 2018

13. Committee Of Management Emoluments

	2018	2017
	£	£
Remuneration and attendance fees	**192,650**	218,250
Society pension contributions to defined contribution schemes	**31,732**	43,838
Expenses	**2,513**	3,587
Total emoluments	**226,895**	265,675
Chairman	**9,496**	9,705
Highest paid member:		
Salary	**70,688**	110,000
Pension contributions	**26,859**	39,588

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:

	2018	2017
	No.	No.
£0 - £15,000	**6**	7
£15,001 - £80,000	**2**	1
£80,001 - £110,000	**0**	1

14. Unrealised Losses On Investments

	2018	2017
	£	£
Unrealised loss on revaluation of investment properties	**(142,270)**	(604,856)
Unrealised loss in UK Real Estate Fund	**-**	(16,108)
Unrealised loss on listed investments		
-With Profits	**(4,730,977)**	-
-Unit Linked	**(4,413,810)**	-
	(9,287,057)	(620,964)

Notes to the Financial Statements - continued
For the year ended 31 December 2018

15. Investments

		2018	2017
		£	£
Summary			
Measured at fair value			
Land and buildings	(a)	**37,651,800**	38,842,270
Measured at cost			
Mortgages on land and buildings	(b)	**971,250**	971,250
		38,623,050	39,813,520
Measured at fair value			
Listed & OEIC Investments (excluding CTF)	(c)	**57,758,760**	48,447,806
Measured at cost			
Bank and money market deposits		**2,504,682**	2,451,870
		98,886,492	90,713,196
Measured at fair value			
Unit linked assets - CTF	(c)	**38,976,683**	42,387,596
		137,863,175	133,100,792

(a) Land and buildings

	Investment properties
	£
Cost or valuation	
Balance as at 1 January 2018	**38,842,270**
Additions	**1,800**
Disposals	**(1,050,000)**
Revaluation in year	**(142,270)**
Balance as at 31 December 2018	**37,651,800**

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 and 2018, with the property valuations being adjusted accordingly.

(b) Mortgages on land and buildings

	Commercial
	£
Balance as at 1 January 2018	**971,250**
Advances during the year	**-**
Repaid during the year	**-**
Balance as at 31 December 2018	**971,250**

Notes to the Financial Statements - continued
For the year ended 31 December 2018

(c) Investments at valuation

		2018 £	2017 £
British Government securities		**4,801,251**	3,448,575
Emerging markets fund		**6,152,709**	6,203,372
Global special situations fund		**2,369,831**	-
Other listed investments	- equities	**18,411,121**	17,253,088
	- alternative assets	**2,315,683**	2,692,650
	- fixed interest	**20,094,751**	16,863,727
UK Real Estate fund		**3,613,414**	1,986,394
		57,758,760	48,447,806
Child Trust Fund investments		**38,976,683**	42,387,596
Balances as at 31 December		**96,735,443**	90,835,402

Cost of investments

		2018 £	2017 £
British Government securities		**4,856,115**	3,429,729
Emerging markets fund		**6,000,000**	5,000,000
Global Special Situations fund		**2,500,000**	-
Other listed investments	- equities	**18,108,950**	14,445,751
	- alternative assets	**2,200,103**	2,512,770
	- fixed interest	**20,805,500**	16,609,897
UK Real Estate fund		**3,496,602**	2,002,502
Unit linked investments		**22,843,328**	22,433,328
		80,810,598	66,433,977

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

	Valuation as at 01.01.18 £	Purchases £	Sales £	Realised Gains / (Losses) £	Unrealised Gains / (Losses) £	Valuation as at 31.12.18 £
British Gov't	3,448,575	1,611,303	(184,488)	(3,073)	(71,066)	4,801,251
Emerging mkts	6,203,372	1,000,000	-	-	(1,050,663)	6,152,709
Global spec. sits.	-	2,500,000	-	-	(130,169)	2,369,831
Equities	17,253,088	4,450,642	(877,224)	37,913	(2,453,298)	18,411,121
Alternative	2,692,650	95,146	(436,691)	34,407	(69,829)	2,315,683
Fixed interest	16,863,727	8,226,633	(3,987,609)	(52,048)	(955,952)	20,094,751
UK RE fund	1,986,394	1,551,436	-	-	75,584	3,613,414
	48,447,806	**19,435,160**	**(5,486,012)**	**17,199**	**(4,655,393)**	**57,758,760**
Unit linked	42,387,596	410,000	-	-	(3,820,913)*	38,976,683
	90,835,402	**19,845,160**	**(5,486,012)**	**17,199**	**(8,476,306)**	**96,735,443**

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

Notes to the Financial Statements - continued
For the year ended 31 December 2018

16. Fixed Assets

	Freehold property £	Office furniture & equipment £	Motor vehicles £	Computer equipment £	Website dev. £	Software dev. £	Total £
Balance as at 1 January 2018	**275,000**	**81,864**	**10,500**	**95,999**	**20,475**	**-**	**483,838**
Additions	**-**	**1,736**	**-**	**29,750**	**-**	**50,400**	**81,886**
Revaluation	**25,000**	**-**	**-**	**-**	**-**	**-**	**25,000**
Disposals	**-**	**-**	**-**	**(21,306)**	**-**	**-**	**(21,306)**
Balance as at 31 December 2018	**300,000**	**83,600**	**10,500**	**104,443**	**20,475**	**50,400**	**569,418**
Depreciation							
Balance as at 1 January 2018	**-**	**52,852**	**6,071**	**84,982**	**7,320**	**-**	**151,225**
Disposals	**-**	**-**	**-**	**(21,306)**	**-**	**-**	**(21,306)**
Charge for the year	**-**	**7,033**	**1,107**	**10,830**	**6,757**	**-**	**25,727**
Balance as at 31 December 2018	**-**	**59,885**	**7,178**	**74,506**	**14,077**	**-**	**155,646**
Net book value	**300,000**	**23,715**	**3,322**	**29,937**	**6,398**	**50,400**	**413,772**
As at 31 December 2017	275,000	29,012	4,429	11,017	13,155	-	332,613

The freehold property has been revalued in accordance with the details in Note 15(a).

Notes to the Financial Statements - continued
For the year ended 31 December 2018

17. (a) Long-term Business Provision – With Profits & Other

	With Profits £	Other £	2018 Total £	2017 Total £
At 1 January	81,863,745	(900,277)	**80,963,468**	62,788,887
Change in long term business provision	12,074,697	125,313	**12,200,010**	18,174,581
At 31 December	**93,938,442**	**(774,964)**	**93,163,478**	80,963,468

(b) Long-term Business Provision – Unit Linked

	2018 Total £	2017 Total £
At 1 January	**38,842,884**	34,489,810
Earned premiums	**492,249**	475,867
Withdrawals / transfers to other providers	**(121,565)**	(116,056)
Change in long term business provision	**(3,995,856)**	3,993,263
At 31 December	**35,217,712**	38,842,884

(c) Total Change In Long-term Business Provision

	2018 Total £	2017 Total £
At 31 December	**8,204,154**	22,167,844

Notes to the Financial Statements - continued
For the year ended 31 December 2018

18. Fund For Future Appropriations

	2018	2017
	£	£
At 1 January	**17,580,849**	15,640,407
Surplus / (deficit) for the year	**(2,672,591)**	1,940,442
	14,908,258	17,580,849

19. Accruals And Deferred Income

	2018	2017
	£	£
Deferred rental income	**430,956**	402,401
Administrative expenses	**235,587**	222,452
Lapsed / matured policies	**74,969**	104,131
Rent deposits held on account	**24,450**	24,450
Sundry accruals	**80**	290
	766,042	753,724

20. Actuarial Valuation And Technical Provision

An Actuarial Report on the assets and liabilities of the Society was last prepared as at 31 December 2018 and a copy of this Report may be inspected at the Registered Office of the Society.

21. 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.

Glossary
For the year ended 31 December 2018

AFM	Association of Financial Mutuals
AGM	Annual General Meeting
CTF	Child Trust Fund
EIOPA	European Insurance and Occupational Pensions Authority
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FRS	Financial Reporting Standards
GDPR	General Data Protection Regulation
IDD	Insurance Distribution Directive
ISA	Individual Savings Account
ISA	International Standards on Auditing (see page 21)
ORSA	Own Risk and Solvency Assessment
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
RPI	Retail Price Index
SCR	Solvency Capital Requirement
SM&CR	Senior Managers & Certification Regime
WPAA	With-Profits Advisory Arrangement

NOTES

Sheffield Mutual Est. 1892
For you, your family, your future

MORE THAN 125 YEARS OF PUTTING OUR MEMBERS FIRST

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