

# **2020 Annual Report and Accounts Health Shield Friendly Society Ltd**

**Year ended 31 December 2020**

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# Board of Health Shield Friendly Society Ltd

## Board:

Ms J Hansen	Chair – Independent
Mr C Marsh	Chief Executive
Mr D Maddison	Senior Independent Director
Mr A Phizacklea	Non-Executive Director
Mr C Chappell	Non-Executive Director – Independent (resigned 19 March 2020)
Ms C Gannon	Non-Executive Director – Independent (resigned 19 March 2020)
Mr S Robinson	Non-Executive Director – Independent (resigned 19 March 2020)
Mrs A Alden	Non-Executive Director – Independent
Mr S Hayhurst	Chief Operating Officer (appointed 7 February 2020)
Mr P Austin	Non-Executive Director – Independent (appointed 9 April 2020)
Mr R Willison	Non-Executive Director – Independent (appointed 9 April 2020)

## Life President:

Mr J McKinnell MBE

## Honorary Medical Consultant:

Dr R Preece                      Leighton Hospital, Crewe

## Chief Actuary:

Mrs C Spinks                      OAC Plc

## Auditors:

BDO LLP

## Bankers:

Barclays Bank Plc

## Investment Managers:

Investec Wealth and Investment Ltd

# Board of Health Shield Friendly Society Ltd

## Julie Hansen

### Chair

Julie was appointed to the Board in June 2015. Julie has over 20 years' experience in the financial services sector with significant experience in assisting companies to develop and enhance their products, services and distribution channels. She has held a number of roles including Director of Distribution for Unity Mutual UK, Head of Sales at Shepherds Friendly Society, Sales Director at Financial Advice Network UK Limited and she ran her own management consultancy. Julie was also subsequently a Non-Executive Director at Financial Advice Network UK Limited and West Country Credit Union.

**Committee membership** – Member of the Nomination and Remuneration Committee and the Risk Committee. Attendee at the Audit Committee.

## Courtney Marsh

### Chief Executive

Courtney joined Health Shield in 2010 before being appointed as an Executive Director in November 2013. In May 2018 he was appointed Chief Executive Officer (CEO). Courtney is a Fellow of the Institute and Faculty of Actuaries and has extensive experience of risk management, actuarial oversight, pricing strategy, financial modelling, business strategy, product development and investments. Prior to his appointment as CEO, he worked as Commercial Director and Executive Director of Risk and Operations, which enabled him to develop a broad understanding of the Society and its markets. Prior to Health Shield, Courtney worked as an actuary for Oliver Wyman, a global consultancy firm.

**Committee membership** – Attendee at all sub-committees.

## David Maddison

### Senior Independent Director

David was appointed to the Board in August 2012. David is a Fellow of the Pensions Management Institute with an LLB degree in Law, Associate of the Chartered Insurance Institute and a Chartered Director of the Institute of Directors. He has recently retired but was previously Managing Director Scheme and Deputy CEO for RPMI (the Executive Arm of the Railways Pension Trustee Company Limited) with direct responsibilities covering trustee and governance services, pensions policy, employer covenant and the integrated risk management of the Railways Pensions Scheme. David is also a Trustee of the People's Pension and a Trustee of the 1994 Pensioners Section of the Railways Pension Scheme.

**Committee membership** – Member of the Audit Committee and the Nomination and Remuneration Committee.

## Alan Phizacklea

### Non-Executive Director

Alan was appointed to the Board in 1998. He has considerable experience in investment management, including extensive experience with charity funds and Friendly Society portfolio management. Alan held senior roles at a number of investment management firms, ultimately becoming Executive Director and Compliance Director for Independent Investment Management Limited.

**Committee membership** – Member of the Audit Committee and the Risk Committee.

## Alison Alden

### Independent Non-Executive Director

Alison was appointed to the Board in November 2018. Alison is a qualified Chartered Accountant with significant experience within both financial services and mutuals. She is currently the Director of Finance and Central Services for Northumberland Church of England Academy with responsibility for managing the financial position of the academy along with non-academic elements of the operational team. She has previously held the roles of Group Chief Risk Officer for North of England P&I Association Limited and Group Finance Director for Sunderland Marine Insurance Company Limited. Alison is also a trustee treasurer for Smart Works Newcastle, a charity that supports women back into employment, and an independent member of the audit and risk committee for Bernicia, a housing association.

**Committee membership** – Chair of the Risk Committee and member of the Audit Committee.

## Stuart Hayhurst

### Chief Operating Officer

Stuart joined Health Shield in 2017 before being appointed as an Executive Director in February 2020. He joined as Director of IT, Operations and HR, to focus on a business wide digital transformation. Stuart has 20 years' experience in digital across the automotive and utilities sectors, delivering business wide transformations and embracing technology to enhance the customer experience whilst driving business efficiencies. In his current role of Chief Operating Officer, he provides strategic management for IT, Operations, Marketing and Product Development. He's also responsible for the continued transformation that is focused on delivering the Society's goals and strategy, and uses his passion for customer excellence to drive growth and sustainability.

**Committee membership** – Attendee at the Audit Committee and Risk Committee.

## Paul Austin

### Independent Non-Executive Director

Paul was appointed to the Board in April 2020. Paul is a qualified Chartered Accountant with over 25 years' experience within the investment and insurance sectors. He currently holds a portfolio of non-executive roles including being Chairman of Estuaries Multi Academy Trust, a newly formed education trust. He has previously held a number of senior roles including Finance Director for Exeter Friendly Society, running his own consultancy business and Group Administration Director for iimia Investment Group plc (now Miton Group plc). Throughout his career he has held a number of regulated roles.

**Committee membership** – Chair of the Audit Committee (subject to regulatory approval) and member of the Nomination and Remuneration Committee.

## Robin Willison

### Independent Non-Executive Director

Robin was appointed to the Board in April 2020. Robin has a background in senior financial services leadership spanning over 30 years, is an Associate of the Chartered Institute of Financial Services and an accredited Executive Coach. He currently works across a portfolio of activities including non-executive directorships, strategic consultancy and executive coaching. He has previously held a number of senior roles including Head of Direct Sales and Operations for LV=, CEO and Director for LV Financial Advice Services and Planning and Operations Director for Lloyds TSB. He has over 10 years' experience as an FSA/FCA approved person.

**Committee membership** – Chair of the Nomination and Remuneration Committee (subject to regulatory approval) and member of the Risk Committee.

# Chair's Report

## Introduction

It is my pleasure and privilege to bring you the 2020 Report and Accounts for Health Shield. At the time of writing, we are still experiencing the global pandemic which has brought many challenges to us all. I am proud of the way that the whole team at Health Shield have addressed the difficulties that arose and they have continued to deliver the very best for our membership. This has been demonstrated by the service provided and the strong, stable financial position that has been maintained, whilst continuing to bring new innovative products to market.

The reintroduction of lockdown measures at the start of 2021 showed that COVID-19 will remain an issue for at least the early part of the new year. However, the roll out of a number of vaccines hopefully provides confidence that an end to the crisis is in sight. Further economic uncertainty also remains regarding Brexit, despite the late agreement of a trade deal. This is likely to continue to affect investment markets and business confidence. Historically, Health Shield has been very resilient to economic uncertainty and I see no reason for this not to continue. Increased awareness of health and wellbeing amongst employers along with the new products the Society has brought to market have put Health Shield on solid ground to face these macroeconomic challenges.

## Current Market

### Cash Plans

The cash plan market continues to be competitive with some aggressive pricing from competitors being observed. However, we are committed to maintaining the balance of competitive pricing combined with a strong focus on member experience through our customer service. The success of that has been demonstrated through winning two major industry awards in 2020 - the Cover Excellence Award and the Health Insurance & Protection Award for best cash plan. The Health Insurance & Protection award is voted for by brokers and the Cover Excellence award is judged by an industry panel. Both take all aspects into account from the product offering, the sales process and the after sales service. Health Shield has won the Health Insurance & Protection award for 10 consecutive years and the Cover Excellence award for 7 consecutive years and this is testament to our philosophy of continuous improvement and the commitment from our dedicated staff.

Health Shield will continue to focus on developing and improving its cash plan products. We have always looked to innovate and introduce new benefits which complement our existing offering. This will continue in the future and aligns with our plans to offer a range of health and wellbeing benefits and services.

### Health and Wellbeing

The Health and Wellbeing market is continually evolving and has offered new challenges, including several new entrants to the market, increasing competition. There has also been disruption to services - screenings have been unable to take place due to social distancing rules for example. We found ourselves launching our new wellbeing platform, 'Breeze', in the middle of the pandemic as per our plan, but we believe we were right to press ahead and we have already enjoyed sales because employers understand the need to support their staff, especially at this time of uncertainty.

Breeze is our new digital health platform and brings together Health Shield's physical, emotional, financial and cultural health and wellbeing services. The platform facilitates the booking and management of GP appointments, access to health information and assessments and receiving discounts from big-name brands. We see this as a market with increased potential due to the heightened awareness of health and wellbeing, from both employers and employees.

## Financials

COVID-19 has had a major impact on the Society's performance during 2020 and we have seen a small drop in income. However, we have also seen a reduction in claims as access to dentists, opticians and physiotherapists was restricted during lockdown. Health Shield is committed to ensuring that any unintended surplus is utilised for the benefit of our membership as we publicly stated in mid-2020. The team has to consider the uncertainty regarding the future with COVID-19 and the regulator has been keen for providers to consider long term stability before considering short term returns to policyholders. The Society will announce its plans to members in due course. However, it's expected that the largest area of returns to members will be through improved benefits or reduced or held premiums at policy renewal.

The Society's major digital transformation took additional steps forward during the year in line with our strategic plans. There was further investment in both expenditure and resource throughout the year however, expenditure to date remains within expectations. Numerous improvements have been seen as a result of this transformation, not least the release of 'Breeze' as mentioned above, with further milestones to be reached throughout 2021 and beyond.

## Governance

Part of the role as Chair is to ensure that the Board has a balanced mix of skills and experience, both supportive and challenging, in order to develop and oversee the delivery of Health Shield's strategy. As part of our continued review and refreshment process, we welcomed 2 new Non-Executive Directors to the Board of Management in 2020. Robin and Paul bring experience that is particularly relevant during this period of transformation. We also welcomed an Executive Director to the Board. Stuart Hayhurst joined us in 2017 and has been an integral part of our digital and technological development to date. Stuart joins the Board as Chief Operating Officer and will oversee the continued transformation of the Society, improving the service and offering to all members. I'd like to take this opportunity to thank all my Board colleagues for their support and their unwavering commitment to Health Shield.

We have continued to invest in our Executive team and they have put in a very strong leadership performance throughout the unprecedented pandemic, demonstrating a can do attitude to ensure that the excellent service received by members did not slip.

The AGM was unable to go ahead as we would have liked. Being in the same room was just not a possibility and we delivered a virtual AGM in September. Many thanks to those who attended, we literally could not hold this without you. We had sincerely hoped that we could return to our usual AGM in 2021 as we really appreciate meeting with delegates and hearing feedback but at the time of writing, it appears that we are unlikely to be able to meet in May. We will continue to review the situation but of course, the priority has to be the wellbeing of our members and staff.

The Chair and the Board confirm that the Annual Report and Accounts present a fair, balanced and understandable assessment of Health Shield's position and prospects and are happy to confirm that there has been no material breach in internal controls during 2020.

## Our People

As mentioned, the staff have been exceptional during this year as ever. They have adapted to the new way of working, some have had to be furloughed, many have worked from home in challenging conditions and I have no doubt that there have been concerns for their future and yet they still produced high standards of performance. A positive and caring workplace culture is a commitment we all uphold and I know we have succeeded in protecting the wellbeing of our staff and therefore the Society. I'd like to take the opportunity to thank each and every one of our staff for the commitment they have demonstrated throughout 2020.

## The Future

As we enter 2021, it is clear that it will be a while before life can return to normal and what that new normal might look like. Here at Health Shield, we still continue with our exciting plans for the future, investing in our members, staff, systems, products and services.

Health Shield continues to be committed to our strategy to 'help people lead healthier, happier, more productive lives'. Our refreshed business plan continues to focus on progression and innovation and we look forward to sharing in 2021.

Our future plans are based around reaching new target audiences, creating a fresh and dynamic approach to employee wellbeing that engages with customers, adds value and creates disruption in the marketplace. We strive to be recognised as an industry thought leader within the employee wellbeing market, in addition to our current position as an award winning cash plan provider.

We send our thoughts to everyone affected by the virus, particularly to those who have lost loved ones. We sincerely hope that the worst is behind us now and we very much look forward to happier, more prosperous times.

Signed on 1 April 2021



Julie Hansen  
Chair

# Strategic Report

## Wellbeing focus

Health Shield is a health and wellbeing provider, specialising in health cash plans, health screening, occupational health and private medical excess cover. However, in 2020 the Society launched its first digital health and wellbeing platform, Breeze. Breeze provides an insight as to how Health Shield will look to deliver its products and services in the future – one platform with access to all services, via a customer’s PC, laptop, tablet or phone.

## Our promise

Health Shield’s promise is to keep businesses and their employees in the best of health. The Society does this by designing and building health and wellbeing packages to meet specific needs of businesses and their employees. To deliver our promise, our purpose is to help people lead healthier, happier, more productive lives. In order to achieve this:

- The Society makes it easier for people to look after themselves by providing affordable health benefits that are simple to access
- The Society’s services will remain human centred

## Strategic objectives

The Board reviewed the Society’s strategic objectives in 2020. The Society has eight key areas of focus:

1. Financial stability – provide long-term financial stability for its members with all products contributing to central costs
2. Capital management – set its appetite for solvency coverage in order to protect members’ interests, while investing ethically and achieving robust returns
3. Generate growth – use a multi-channel approach, varying by product line
4. Strong governance – continuously identify, understand and manage the risks faced while maintaining high standards of corporate governance and conduct in all areas
5. Future proof technical infrastructure – provide a high availability infrastructure that delivers on the needs of the business
6. Market leading products and services – listen to the Society’s stakeholders, supporting a continuous development approach
7. Invest in our people - create an environment where employees are empowered and motivated, strive for excellence and conduct themselves with integrity
8. Maintain strong stakeholder service - provide great omni-channel stakeholder service

## Values and behaviours

The Society has core values which represent how it treats its membership, and behaviours which represent how it treats its staff, members and all other stakeholders.

### Values

- Member focused – What’s good for our members is good for us
- Always listening – Talk to us. We listen, learn, then act accordingly – always
- Continually improving – Constantly adapting to stay in the best of health

### Behaviours

- Caring – We treat people how we’d like to be treated
- Human – We’re humans talking to humans
- Clear – Complicated subjects made uncomplicated
- Fun – Life’s better if you include a little fun
- Easy to use – We simply adopt a user friendly approach
- Consistent – We’ll always be here for our members

## Business review

Health Shield faced an unprecedented year in 2020 as the COVID-19 pandemic severely impacted the UK and global economies. The UK suffered a recession for the first time since the financial crisis in 2008/2009 however, the full national lockdown resulted in the impact to GDP being far more severe than during the financial crisis. Record falls of 7.3% and 18.9% were seen in March and April respectively before the easing of restrictions provided a return to GDP growth. This was relatively short lived as a second wave of the virus required a second lockdown which resulted in a further fall of 2.6% in November. At the end of 2020, UK GDP had fallen by 9.9% compared to the start of the year.

These extreme economic conditions meant that generating new business for the Society was extremely challenging. For the first time in a number of years, the Society was unable to grow its core cash plan business (new members fell by 28%). Despite this, the Society's retention of existing business was pleasing and resulted in cash plan premium income only dropping by 2% (with membership dropping by 3%).

Other areas of the group were more severely impacted by the pandemic. Lockdown and the subsequent prevalence of home working resulted in health screening being unable to be performed for a significant portion of the year, and some occupational health requirements also being suspended for a number of months. This resulted in a fall in non-cash plan income of 49%. Although disappointing, the circumstances leading to this decline were unavoidable and it should also be remembered that this area accounts for a small proportion of the group's overall income and currently represents less than 2% of the total income for the year.

The other key area that was impacted by COVID-19 was member benefits and claims costs. Whilst members still had access to all of the Society's 'MyWellness' solutions (including virtual GP, mental wellbeing app, employee assistance program, 24/7 counselling, on-demand physio and more), lockdown and the other subsequent restrictions meant that claims for certain treatment types fell dramatically. During 2020, the Society paid out £21.6m (2019: £32.3m), which accounts for 53% (2019: 78%) of earned premium income. The Society has committed to utilise any surplus generated as a result of COVID-19 for the benefit of its membership in future years.

The Society continued to invest in its future in line with its strategic objectives, with key elements including the continuation of its digital transformation and further developments of the Breeze proposition which was released during the year. Despite this ongoing investment, operating expenses as a proportion of total income (excluding investment income) dropped to 33% from 38% in 2019. Reduced staffing levels and furloughed staff due to significant falls in workloads during the peak of the pandemic were the key drivers of the expense reduction. By the end of the year, only seven staff remained on the job retention scheme (six of these on flexi-furlough) as workloads picked up during the second half of the year.

Investment markets were also significantly hit by the global pandemic which resulted in the Society's investments generating returns of £1.5m compared to £4.2m in 2019. Further details regarding investment performance are shown below.

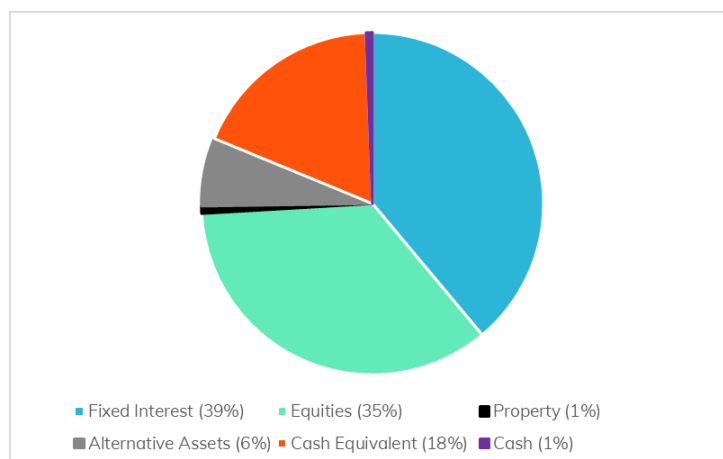
These factors combined to result in the Society generating a surplus for the year of £9.6m (2019: deficit of £1.0m) along with maintaining a strong solvency position of 381% (2019: 315%).

Despite the issues caused by the pandemic, particularly the requirement to transition the majority of staff to home working, the Society was pleased to maintain strong levels of customer service. Claims processing times improved (94% compared to 90% in 2019) and complaints volumes dropped (0.1% compared to 0.2% in 2019), whilst customer satisfaction scores remained broadly level (4.4 compared to 4.5 in 2019).

The results for the year are shown in detail in the Income and Expenditure account on page 47.

## Investments

The breakdown of the Society's portfolio as at 31 December 2020 is shown in the chart below:



2020 saw significant market falls around the world as COVID-19 spread worldwide and became a global pandemic. At its lowest point, the FTSE100 was 34% below its year-end value and this was consistent with other major markets around the world.

Despite seeing a recovery in subsequent months, markets remained volatile throughout the majority of the year. This volatility was added to at various points during the year by falling oil prices, continued Brexit uncertainty and the US general election. November started to see stronger market recoveries as news was announced of three COVID-19 vaccines being in the final stages of approval.

Performance for the year of the Society's portfolios was as follows:

	2020 Performance	Benchmark	Over/(Under) Performance
Fixed Interest	4.91%	3.95%	0.96%
Equities	4.43%	0.00%	4.43%
Alternatives	(2.33%)	2.34%	(4.67%)
<b>Combined</b>	<b>4.49%</b>	<b>2.50%</b>	<b>1.99%</b>

### The key investment risks faced included:

- Market risk – the risk of an adverse impact on the Society's solvency position due to a decrease in equity market performance
- Property risk – the risk of a fall in property prices
- Interest rate risk – the risk from movements in interest rates
- Spread risk - the difference between the quoted rates of return on two different investments
- Counterparty default risk – the risk that one or more parties might default on their contractual obligations

The Society has decided not to perfectly match assets with liabilities but continues to hold a diversified portfolio across a range of asset classes and terms in order to diversify risk.

The Society's investments are managed in line with its agreed strategy by Investec Wealth & Investment Limited. The Society's investment strategy is reviewed, and amended if appropriate, by the Board on an annual basis.

## Key Performance Indicators 2020

The Key Performance Indicators shown in the table below are used to monitor service delivery performance and the delivery of the Society's strategy.

<b>Financials</b>	<b>2020</b>	<b>2019</b>	<b>Movement</b>
Total Income	£41.6m	£42.9m	-3%
Operating costs %	33%	38%	-5%
Balance sheet net assets	£49.0m	£39.4m	24%
SCR coverage	3.8	3.2	21%
<b>Membership</b>	<b>2020</b>	<b>2019</b>	<b>Movement</b>
Number of new members administered by the Society	81k	113k	-28%
Total number of active members	335k	345k	-3%
<b>Customer Service</b>	<b>2020</b>	<b>2019</b>	<b>Movement</b>
Claims processed within two working days	94.2%	90.1%	4%
Customer satisfaction rating regarding claims – Likert scale measurement (out of 5)	4.4	4.5	-2%
Complaints as a % of final membership	0.10%	0.20%	-0.10%

## Key Performance Indicators Glossary

### Financials

These metrics provide an indication of the financial performance of the Society, in particular its growth and financial strength:

- Total income – total income earned during the year
- Operating costs percentage - net operating expenses as a percentage of total income
- Balance sheet net assets – as per the balance sheet
- Solvency capital ratio (SCR) coverage – the number of times the assets the Society has in excess of its liabilities can cover the EU's risk-based regulatory capital requirements

### Membership

These metrics show the ability to attract and retain members which is key to the success of the Society:

- Number of new members – new members to the Society during the year
- Total number of active members – number of active members as at the year-end date

### Customer Service

These metrics focus on the service that the membership base is receiving from the Society:

- Claims processed within two working days - percentage of all claims settled that were processed within two working days of receipt by the Society
- Customer satisfaction rating for claims – satisfaction score obtained from issuing member surveys. Score based on the Likert scale (out of 5). The Likert scale is a rating scale, used in questionnaires, that is designed to measure people's attitudes, opinions and perceptions.
- Complaints as a percentage of final membership – total number of complaints received during the year as a percentage of active members at the year-end date

## Going Concern

The Society's business activities together with the factors likely to affect its future performance, liquidity and planned growth are set out in this report. In addition, note 7 of the Notes to the Accounts on pages 63 - 71 includes the Society's policies and processes for managing its capital and financial risks.

The Society has a strong capital position (solvency ratio of 381%). The Society plans to continue to invest in its strategic objectives over the short-term, which is expected to lead to further deficits being generated. Despite this, based on current forecasts, there are no suggestions that the Society will not maintain a robust capital position.

The Board has undertaken an assessment of the Society's ability to continue as a going concern for the foreseeable future. The assessment process took into account different aspects, with the key areas being as follows:

- Review of the Society's twelve month budget
- Assessment of the results arising from the Society's Own Risk and Solvency Assessment (ORSA) report, which includes a number of stress and scenario tests
- Ongoing consideration of the Society's strategic and operational risks

Following the analysis, the Board believes there is a reasonable expectation that the Society has adequate resources to continue in operational existence for at least 12 months from the date of approval of the Annual Report and Accounts. Accordingly, the Society will continue to adopt the going concern basis for the preparation of the annual report and accounts.

## Longer Term Viability Statement

The Board has assessed the Society's viability over a five-year period to December 2025. A five-year assessment is considered to be the most appropriate time frame in accordance with the Society's ORSA policy, however more emphasis is placed on the initial three years within this assessment.

In making this assessment, the Board has considered the principal risks facing the Society and the Society's resilience in severe but reasonably adverse scenarios through the use of stress testing and sensitivity analysis. The assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. Within the assessment, the Board has taken account of the Society's solvency position, its investment policy and its key mitigating action of adjusting rates of contributions and benefits.

The following sensitivities and scenarios were considered in the Society's ORSA:

- Insurance risk – 7 sensitivities which include variations to claims inflation, IPT rates and lapse rates.
- Market risk – 9 sensitivities which include variations to asset mix, equity values, interest rates and corporate bond defaults.
- Operational risk – 9 which include variations to new business volumes, expense inflation and commission rates.
- 5 scenarios were also run, each of which combined a number of aspects from the above sensitivities.

The Society generated a surplus in the current year, however a key element of this performance was the shortfall in claims costs resulting from the COVID-19 pandemic. As stated earlier, this COVID-19 surplus will be utilised for the benefit of members over the short-term.

The Society is also continuing to invest in the short-term in its key strategic objectives. This investment will, amongst other things, diversify the Society's product offering and enhance member experience thereby providing a long-term sustainable future for Health Shield and its membership.

These two aspects of expenditure result in deficits being anticipated in the short-term, however the results of the ORSA show that the Society maintains a sufficient capital position throughout the five-year plan. The

enhancements generated from this investment are expected to result in the Society returning to an operating surplus within the five-year planning period.

The Society continues to expect minimal direct impact from Brexit. The potential economic uncertainty has been factored into the Society's business plan and the strength of the Society's capital position would enable it to withstand any short term fluctuations in market values.

The potential longevity of the COVID-19 pandemic and this stretching significantly into 2021 has also been considered. It seems unlikely that any 2021 restrictions, and therefore economic impact, would be as severe as those seen in 2020. The current year performance indicates that any ongoing COVID-19 impact would be unlikely to materially affect the Society's solvency position. It would be highly likely to impact the Society's growth plans and ability to achieve income targets however, as seen this year, any impact such as this would be expected to be outweighed by a reduction in claims activity by members.

Based on this assessment, the Board has a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period considered.

## Principal Risks and Uncertainties

Further details on the risks facing the Society and the key mitigating actions, can be found in note 7 of the financial statements under Capital and Risk Management.

The Board of Management has ultimate responsibility for risk management and internal control, including the determination of the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives. The following are the principal risks considered by the Board to have the most fundamental impact on achievement of the Society's business plan:

### Economic and political environment

The current environment is changeable and is expected to continue to be so. The long-term effect of the COVID-19 pandemic on the UK economy will be far-reaching in terms of impact and longevity. In addition, the full impact of the UK's decision to withdraw from the EU remains to be seen, particularly as the UK comes to the end of the transition period on the 31 December 2020. The following scenarios have been considered:

- The UK economy was officially in recession during the early part of 2020 before making a recovery in Q3. When figures for the October to December quarter are published, they may well show GDP falling again as restrictions hit the economy. It remains the case that the economy is smaller than it was before the pandemic. However, the Bank of England forecasts expect to see growth next year and the availability of a vaccine is expected to boost the recovery. In the short term, pressure on business could result in reduced demand for health and wellbeing products as firms aim to manage their cost base. However, the Society's cash plan has historically performed well during downturns, in contrast to other expensive health cover products such as PMI. Equally, the demand for a well-priced health and wellbeing product could increase if employers are looking to support their employees in a challenging environment.
- The Society has always been susceptible to Insurance Premium Tax (IPT) increases and uncertainty remains over the outlook for potential increases. This concern is amplified as the UK government will look for avenues to assist with managing the rapidly growing national debt. Any IPT rise would increase the cost to customers and risk pushing the premium to a level at which the benefits could be perceived as marginal.

### Competition

The Society's product offering includes its traditional health cash plan and a diversified suite of health and well-being products, all of which can be subject to competitive challenges:

- The Society's health cash plan remains its core insurance-based product. Regulation and relatively small margins have to a degree protected the health cash plan market and hence it is a space largely dominated by not-for-profit businesses. However, there remains scope for disruption from larger players entering the market and even for existing players to adopt more competitive and penetration pricing strategies.

- In contrast to insurance, fewer barriers to entry exist in the digital health and wellbeing space. It is highly competitive and almost certain that new entrants will appear, and that existing players in the market will develop similar propositions.

### Internal control

- The Society continues to invest in its internal control environment, which includes a drive to move away from legacy systems, automate and digitise processes and to remove the reliance on manual controls. The Society's digital transformation requires an upgrade to existing infrastructure and software, with benefits for services, continuity and data security for members and customers. The Society has also considered its internal functions leading to enhancements to its people and performance management processes, sales structures, supplier management, and internal policies and documentation.

## Climate Change

### Climate Risk

Risks from climate change are generally categorised in terms of physical risks that arise directly from rising global temperatures, and transition risks that arise through the actions, initiatives and behaviours aimed at limiting the rise in global temperatures. Both types of risk have the potential to impact the success of the Society's business model. The Society is therefore focussed on understanding the threats and opportunities arising from climate change. Climate change is also being incorporated into our investment strategy, including development of an Environment, Society and Governance (ESG) Policy.

The Prudential Regulation Authority (PRA) has outlined its expectations of financial services firms for managing risks from climate change. In response to this, the Society will continue to develop a climate change risk framework during 2021.

### Impact of Climate Risk on the Society

The Society's products are not considered to be highly vulnerable to climate-related risk and therefore the Society does not anticipate any material performance impact in the short-term. The longer-term impacts of transitioning to a low carbon economy are being assessed and developed on an ongoing basis.

The Society's key financial risk from climate change is considered to be the potential impact to its investment portfolio. Whilst this may only crystallise in full over the longer-term, risks are beginning to emerge now.

The potential physical risks for the Society could include threats to infrastructure or property arising from rising sea levels or extreme weather events, leading to a default on debt by the issuer and consequently affecting investment portfolios.

The potential transition risk could include large movements in asset values or higher costs of doing business for companies in sectors sensitive towards a low carbon economy, thereby impacting equity values.

The Society will continue to work with its investment managers to ensure that its investment portfolio considers climate change risks and looks to mitigate these as they evolve over time. The Society currently has an ESG appetite statement within its investment policy and will continue to monitor and update this as appropriate.

A further longer-term risk that the Society may face, relates to the loss or reduction in size of corporate customers that operate within vulnerable sectors. However, the Society's customer base is spread across numerous sectors and therefore, at present, this is not considered to be a material risk.

In line with the PRA requirements, the Society will develop a proportionate approach to scenario analysis by the end of 2021.

The potential risks of climate change will continue to be monitored by the Board and updated as they evolve.

### Impact of the Society on the Environment

The Society does not consider itself to be a carbon intensive business and therefore at present has not set itself any emissions targets. Despite this, the Society is actively looking to reduce its carbon footprint and has already implemented a number of initiatives in respect of this including:

- Installing solar panels
- Installing electric vehicle charging points
- Installing energy efficient lighting
- Providing flexibility within the company car scheme to increase the uptake of hybrid or fully electric vehicles

The Society will continue to monitor its impact on the environment and will determine its approach towards setting targets and commitments in relation to this.

### Financial Statements

There are currently not considered to be any impacts on the financial statements arising from climate change considerations.

### The Future of the Cash Plan and Health and Wellbeing Market

The impact of COVID-19 is likely to continue to be felt in the coming year. Unemployment in the UK has grown substantially and this is expected to continue into 2021. Economic uncertainty will also continue into the new year with economic predictions varying greatly but all consistent in the view that the recovery will be slower than initially projected.

This economic outlook will provide challenges for the Society in 2021. However, the pandemic and its impact on employees appears to have raised the profile of employee wellbeing with employers. This increased recognition of the needs for employee wellbeing can only be a positive for the Society as its diversified product range addresses a number of challenges that employers and employees will be facing.

The Society's ongoing investment to further enhance and diversify its products will ensure that it is well positioned to take advantage of the increased focus on this market.

Health cash plans remain a popular and competitive product and this is expected to continue. The investment in improvements to the member experience with these products will ensure that the Society remains well placed to grow its share of this market.

Approved by the Board of Directors and signed on behalf of the Board on 1 April 2021.



Courtney Marsh FIA  
Chief Executive

# Board Report

## Introduction

The Friendly Societies Act 1992 ("the Act") requires the Society to prepare financial statements for each financial year. Under that law, Health Shield has elected to prepare its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Friendly Society legislation, the Board must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. The Board must therefore:

- Select suitable accounting policies and then apply them consistently
- Make judgments and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business

In fulfilling its responsibility for preparing annual financial statements the Board considers that this annual report and accounts, taken as a whole, are fair, balanced and understandable and provide all information necessary for members to assess the Society's performance, business model and strategy.

The Board is also responsible for keeping proper accounting records that are sufficient to show and explain the Society's transactions, disclose with reasonable accuracy, at any time, the financial position of the Society and enable it to ensure that the financial statements comply with the Friendly Societies Act 1992. It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Finally, the Board is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

The Strategic Report sets out details of the Society's key performance indicators, principal risks, business review, going concern and longer term viability.

Details of the Board members during the year are given on pages 3 - 5.

## Society's Powers

The Board can confirm that no material activities were carried out during 2020 that could be considered to be outside the Society's powers.

## Charitable Donations

Health Shield currently operates a charity matching system whereby any money raised by its employees is matched, up to £1,000 per employee. The total amount paid out under this scheme in 2020 was £10,306 (2019: £9,968).

## Complaints Procedure

Health Shield's complaints procedure operates in accordance with the "Dispute Resolution Complaints" section of the Financial Conduct Authority Handbook. As required, it makes proper reference to the Financial Ombudsman Scheme.

## Officers' Liability Insurance

Throughout the current and previous year, Health Shield maintained liability insurance for its directors and officers as permitted by the Friendly Societies Act 1992.

## Statement of Disclosure to Auditor

As at the date when this report is approved, each member of the Board confirms that, so far as he or she is aware:

- There is no relevant audit information of which the Society's auditor is unaware, and
- He/she has taken all the steps that a Board member ought to take to make himself or herself aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

By order of the Board on 1 April 2021



Courtney Marsh FIA

Chief Executive

# Corporate Governance Report

## Introduction

For the year ended 31 December 2020, the Society's Corporate Governance principles were in accordance with the Association of Financial Mutuals (AFM) Corporate Governance Code which took effect from 1 January 2019.

## Purpose and Leadership

### Principle

**An effective Board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.**

### Principle Applied

Yes

### How Applied

The Board sets the strategy to deliver the Society's purpose, and the values and behaviours that shape and underpin the Society's culture and the way it conducts its business. In particular, the framework of incentives and rewards are approved by the Board and are aligned to delivering the strategy in a manner supported by the appropriate behaviour and values. The Board seeks assurance from its Executive team that it has effectively embedded the Society's purpose and values in operational policies and practices. The Executive Team delivers the Society's strategy and is responsible for setting an example to staff and communicating expectations in respect of the Society's culture and values. The Chief Executive is also responsible for ensuring that the Board receives accurate, timely and clear information in a form and of a quality and comprehensiveness to enable it to discharge its duties.

The Society's values help to support it and ensure all stakeholders reflect on doing the right things the right way. The Society believes that these values should continue to guide the principles of how business is undertaken and continued respect for these values should underpin the Society's performance for the longer term.

The Executive team undertakes a quarterly corporate brief with all employees to ensure that they are kept up to date with developments across the Society. Achievement towards strategic objectives and the Society's overarching values form a key part of these corporate briefs.

Further details regarding the Society's strategy and values are included in the strategic report on pages 9 - 16.

## Board Composition

### Principle

**Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the organisation.**

### Principle Applied

Yes

## How Applied

The Society's policy is to appoint and retain Directors who can apply their wider knowledge and experiences to the benefit of the Society. The Nomination and Remuneration Committee is responsible for succession planning for the Board during the year to ensure that an appropriate balance of skills and experience is maintained. The aim is that the Board should have an appropriate balance of skills, experience, independence and knowledge to enable each Director and the Board, collectively, to discharge their duties and responsibilities effectively.

The Society feels that the Board possesses a diverse range of skills and operates for the benefit of our members. The composition of the Board is monitored on a regular basis to ensure it continues to meet the needs of the Society in both size and skill sets.

The Nomination and Remuneration Committee identifies areas where either there is a need for a particular skill immediately or for succession plans for an existing position. The Committee recommends appointments to the Board. The Society's key objective is for all appointments to be merit based, against objective criteria, ensuring the Board has appropriate independence, skills and experience.

All Board members are expected to allocate sufficient time to the Society in order to discharge their responsibilities effectively. This includes regular attendance at meetings along with time outside of meetings to keep up to date with the Society's affairs. The table below shows each Board member's attendance at Board meetings and sub-committees.

	Board	Audit	Risk Management	Nomination and Remuneration
<b>Non-Executive Directors</b>				
J Hansen	6 (6)	3 (3)	3 (3)	4 (4)
D Maddison*	3 (3)	2 (2)	0 (0)	3 (3)
A Phizacklea	6 (6)	3 (3)	3 (3)	1 (1)
C Chappell (resigned 19 March 2020)	1 (1)	0 (0)	0 (0)	0 (0)
C Gannon (resigned 19 March 2020)	1 (1)	0 (0)	0 (0)	1 (1)
S Robinson (resigned 19 March 2020)	1 (1)	0 (0)	0 (0)	1 (1)
A Alden	6 (6)	3 (3)	3 (3)	0 (0)
P Austin (appointed 9 April 2020)	4 (4)	3 (3)	1 (1)	3 (3)
R Willison (appointed 9 April 2020)	4 (4)	1 (1)	3 (3)	3 (3)
<b>Executive Directors</b>				
C Marsh	6 (6)	3 (3)	3 (3)	4 (4)
S Hayhurst (appointed 7 February 2020)	6 (6)	3 (3)	3 (3)	0 (0)

\*David Maddison was granted a six month leave of absence during the year for personal reasons.

The Society's Chair is responsible for leadership of the Board and ensuring, amongst other things:

- Effective operation of the Board and its committees in conformity with the highest standards of corporate governance
- Board committees are properly established, composed and operated
- Effective relationships and communication between non-executive directors and members of the Society's Executive
- Comprehensive induction programmes for new Directors and updates for all Directors as and when necessary
- Performance of the Board, its main committees and individual Directors is formally evaluated on an annual basis

At the end of 2020, the Society met the independence criteria with 5 of the 6 Non-Executive Directors being independent, which is above the suggested 50% target. The Society also appointed a new Chair during the year who was independent upon appointment.

## Director Responsibilities

### Principle

The Board and individual directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision making and independent challenge.

### Principle Applied

Yes

### How Applied

The Society maintains the following documents in relation to its corporate governance practices and to support effective decision making:

- Management responsibilities map, which details the accountabilities and responsibilities across the Society
- Delegated authority matrix, which details the responsibilities that have been delegated to the sub-committees and CEO
- Risk management policy – further details regarding the Society's risk management are included in the opportunity and risk section below
- Internal control map, which details the policies and practices that govern the internal affairs of the organisation
- Memorandum and rules, which governs the purpose and powers of the Society
- Sub-committee terms of reference – which details the role and responsibilities of each sub-committee

These documents are updated as and when required and reviewed by the Board periodically to ensure they remain adequate for the needs of the Society.

The Board has formed three sub-committees to assist with the consideration of specific key areas:

- Audit Committee
- Risk Management Committee
- Nomination and Remuneration Committee

Each sub-committee is chaired by a Non-Executive Director. The structure of each sub-committee is shown in the appendix to the corporate governance statement together with an explanation of roles and responsibilities.

The governance code's recommendations regarding membership, independence and experience for the Audit Committee and Remuneration Committee have all been met by the Society for both of these committees.

The Board relies on second line challenge and third line oversight to ensure internal controls and systems of risk management are effectively implemented and monitored.

## Opportunity and Risk

### Principle

**A Board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risk.**

### Principle Applied

Yes

### How Applied

Identifying new opportunities is a key part of the Society's strategy and is considered on an ongoing basis by the Board. Any such opportunities would be investigated by the Board and considered with regard to their suitability in line with the Society's strategic vision and risk appetite.

The Society's approach to risk governance is reported later in the Corporate Governance Report on pages 29 - 32.

## Remuneration

### Principle

**A Board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.**

### Principle Applied

Yes

### How Applied

Details regarding the Society's remuneration policy are shown on pages 33 - 34.

## Stakeholder relationships and engagement

### Principle

**Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.**

### Principle Applied

Yes

### How Applied

The Society is committed to maintaining effective relationships with all its stakeholders.

The Society operates a delegate-based model and maintains engagement and dialogue in the following ways:

- Annual General Meeting – the delegates provide certain approvals in line with the Society's memorandum and rules. Ahead of the AGM, the Board and Executive undertake North and South area meetings where a review of the Society's performance is presented and the delegates have the opportunity to question and provide feedback on any aspects of the Society

- Newsletter – the Society distributes a quarterly newsletter to delegates to keep them informed of developments within the Society
- Meeting with the Board – from 2021, it has been agreed that a representative number of delegates will be invited to meet the Board during the year to receive an update regarding the Society's performance and to be able to ask questions and provide feedback. This was due to commence in 2020 but was postponed until 2021 due to face to face meetings being cancelled as a result of COVID-19.

Customer surveys are also undertaken across the wider membership base to enable other members to voice their opinions about the Society.

The Society has implemented a people strategy to further enhance its engagement with employees. Employee engagement includes aspects such as:

- Employee forum
- Quarterly corporate briefs
- Employee surveys
- Bi-annual employee events
- Staff incentives
- Employee awards

The Society has also implemented a corporate social responsibility (CSR) policy and environmental focus group. Under the CSR policy, employees are able to request grants from the Society for local good causes. The environmental focus group has been created to ensure the Society is considering environmental concerns and impacts in relation to its business. It looks at areas such as sustainability, waste management, energy management, transport and culture.

# Corporate Governance Report – Board and Committees

## Board of Directors

### Composition during the year:

Ms J Hansen	Chair
Mr D Maddison	Senior Independent Director
Mr A Phizacklea	Non-Executive Director
Mr C Chappell	Non-Executive Director – resigned 19 March 2020
Ms C Gannon	Non-Executive Director – resigned 19 March 2020
Mr S Robinson	Non-Executive Director – resigned 19 March 2020
Mrs A Alden	Non-Executive Director
Mr P Austin	Non-Executive Director – appointed 9 April 2020
Mr R Willison	Non-Executive Director – appointed 9 April 2020
Mr C Marsh	Chief Executive
Mr S Hayhurst	Chief Operating Officer – appointed 7 February 2020

More details on each of the Board Members can be found on pages 3 - 5.

## Audit Committee

### Composition to April 2020:

#### Members:

Mr C Chappell	Chair – resigned 19 March 2020
Ms C Gannon	Non-Executive Director – resigned 19 March 2020
Mrs A Alden	Non-Executive Director

#### Attendees:

Mr C Marsh	Chief Executive
Mr L Foster	Chief Risk and Data Officer
Mr N Foskett	Chief Financial Officer
Miss S Dixon	Internal Audit Manager
Mr N Elliot	Head of Internal Audit - PwC
Mr A Bendasiuk	Senior Manager - PwC

### Composition from April 2020:

#### Members:

Mr P Austin	Chair (Chair from 17 August 2020 – subject to regulatory approval)
Mr D Maddison	Non-Executive Director
Mr A Phizacklea	Non-Executive Director
Mrs A Alden	Non-Executive Director (Chair until 17 August 2020)

#### Attendees:

Ms J Hansen	Chair of the Board
Mr C Marsh	Chief Executive
Mr L Foster	Chief Risk and Data Officer
Mr S Hayhurst	Chief Operating Officer

Mr N Foskett	Chief Financial Officer
Miss S Dixon	Internal Audit Manager
Mr N Elliot	Head of Internal Audit - PwC
Mr A Bendasiuk	Senior Manager - PwC

## Role

The Committee provides independent objective oversight and challenge of the financial statements and internal control environment. This is achieved through:

- Ensuring that the principles, policies and practices adopted in the preparation of the Annual Accounts and Financial Statements comply with all statutory requirements in order that it may provide detailed assurance to the Society's Board of Management.
- The application of a systematic, disciplined approach to obtaining assurances as to the adequacy and effectiveness of the full range of internal control procedures of the Society.

The Committee shall also oversee any investigation of activities which are within its Terms of Reference.

The Committee is empowered to seek any information that it requires from any officer or employee of the Society and to take such independent advice as it considers necessary.

## Duties

The key duties of the Audit Committee are to:

- Recommend policies that maintain and improve the financial health and integrity of the Society.
- Monitor the integrity of the financial statements of the Society, including its annual reports and any other routine statement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain (having regard to matters communicated to it by the auditor).
- Review, prior to submission to the Board the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess the Society's business strategy and performance.
- Monitor the overall framework of internal control, particularly those concerning financial reporting and disclosure and advise the Board on the appropriateness of policies and procedures designed to maintain control over transactions and events.
- Oversee the effectiveness of the Society's Internal Audit function and the implementation of outstanding audit actions.
- Oversee the selection process and make recommendations to the Board regarding appointment, re-appointment or removal of the Society's external auditor and, in turn, manage the relationship with the external auditor.
- Review the Society's procedures for Whistleblowing, ensuring that the Society's arrangements are adequate for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee should ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- Review the Society's procedures for the prevention of bribery and receive reports on non-compliance.
- Review the Society's procedures for detecting fraud and receive reports on non-compliance.
- Monitor the annual operating budget and annual capital budget and advise the Board on whether there is robust financial control consistent with the Society's strategy, corporate plans and financial policies.
- Monitor the financial performance of the Society as a whole against its approved operating and capital expenditure budgets, long-term trends and industry benchmarks.
- Review and approve, as justified, unbudgeted operating expenditure and any capital expenditure which is above the delegated authority of the Executive.

- Review annually, the expenses of all directors and make any necessary recommendations to the Board for action.
- Arrange for periodic reviews of its own performance and, at least annually (following the completion of the business plan/ORSA), review its constitution and terms of reference to ensure it is operating at maximum effectiveness in support of meeting the Society's strategic aims and the authority delegated to it by the Board. Recommend any changes it considers necessary to the Board.

### Relationship with External Auditor

The Audit Committee feels that the effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. It receives from BDO LLP a detailed audit plan, identifying their assessment of key risks. For 2020, the significant risks identified were in relation to:

Issue	Overview
Estimation of insurance technical provisions	Insurance technical provisions are a key area of audit focus given their prominence in the Society's balance sheet and the judgments and estimation that are implicit in their calculation. Key audit matter - Yes Testing approach – Substantive
Property valuation	The property occupied by the Society is held under a long leasehold and is included under 'Land and Buildings' in the balance sheet. It is carried at fair value. Key audit matter - Yes Testing approach – Substantive
Management override	ISA (UK) 240 presumes that Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Key audit matter - No Testing approach – Substantive
Revenue recognition	ISA (UK) 240 – The auditor's responsibilities in relation to fraud in an audit of financial statements requires them to presume that there are risks of fraud in revenue recognition. Key audit matter - No Testing approach - Substantive

The Audit Committee has assessed the risks and is in agreement that these are the key audit risks facing the Society.

These risks are tracked during the year and throughout the year-end process. The Audit Committee challenged the work done by the auditors to test management assumptions and estimates around these areas. The committee assesses the effectiveness of the audit process in addressing these matters through detailed review and challenge of both the management letter and final audit committee report that are presented, in person, to the Audit Committee by BDO LLP upon completion of the audit.

BDO LLP did not provide any non-audit services during the year.

## Nomination and Remuneration Committee:

### Composition to April 2020:

#### Members:

Ms C Gannon	Chair – resigned 19 March 2020
Mr A Phizacklea	Non-Executive Director
Mr S Robinson	Non-Executive Director – resigned 19 March 2020

#### Attendees:

Mr C Marsh	Chief Executive
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### Composition from April 2020:

#### Members:

Mr R Willison	Chair (Chair from 17 August 2020 – subject to regulatory approval)
Ms J Hansen	Non-Executive Director (Chair until 17 August 2020)
Mr D Maddison	Non-Executive Director
Mr P Austin	Non-Executive Director

#### Attendees:

Mr C Marsh	Chief Executive
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## Role

The Nomination and Remuneration Committee provides assurance to the Board regarding recruitment, retention, training, performance and reward. This includes the maintenance of the appropriate skills and competence mix to meet the strategic aims of the Society.

## Duties

The key duties of the Nomination and Remuneration Committee in relation to Nominations are to:

- Review on a regular basis, the structure size and composition of the Board.
- Formulate plans for succession for both Executive and Non-Executive Directors of the Board; Senior Management; key function holders; and other material risk takers, in particular, the key roles of Chairman of the Board, Chief Executive and Senior Independent Director.
- Identify and nominate for the approval of the Board, suitable candidates to fill Board vacancies, as and when they arise, ensuring that the candidate has sufficient time to undertake the role.
- Before any appointment is made, evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.
- Ensure that, on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of, time commitment, committee service and involvement outside of Board meetings.
- Ensure that any newly appointed director discloses any other business interests that may result in a conflict of interest. Notwithstanding this, all directors are required to adhere to the Society's conflicts of interest policy.
- Ensure that all new Members of the Board of Management, when taking up office, are fully briefed on the terms of their appointment, and on their duties and responsibilities.
- Review and monitor the job descriptions for all key roles including Chairman, Chief Executive, Senior Independent Director and those relating to the senior executive team.

- Oversee annual evaluations of the Board's performance ensuring that, once in every three years, this is undertaken by an external, independent body.
- Review the ongoing training and competence needs of the Board, agree plans for training and development and monitor their delivery to ensure continuing effectiveness and improvement in the Board's capacity.
- Annually review the time required from Non-Executive Directors and ensure that annual performance evaluation reviews are used to assess whether Non-Executive Directors are spending enough time to fulfil their duties.
- Consider the re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required and the need for progressive refreshing of the Board (particularly in relation to directors being re-elected for a term beyond nine years).
- Keep under review, the Society's policies (contained in the policy library), processes and procedures, together with the organisational structure (including staffing levels and job sizing) to ensure Health Shield's capability for implementing and delivering strategies and plans.
- Make recommendations to the Board for approval on appointments to the Board's Sub-Committee and ensure that they are rotated sufficiently frequently to spread expertise and maintain the freshness of the Committees.
- Assist the Board in developing and maintaining the Society's culture, its behaviours, body of ethics and code of business conduct.

The key duties of the Nomination and Remuneration Committee in relation to Remuneration are to:

- Recommend to the Board for approval, the Society's Remuneration Policy and oversee its implementation, through the Chairman and the Chief Executive (as appropriate) for the total remuneration of the Executive team, the Chairman, the Company Secretary and any employee who falls within £10k of the lowest paid member of the Executive team's total remuneration package.
- In relation to the Remuneration Policy, the Committee shall ensure that the Society complies with the remuneration requirements of Article 275 of the Solvency II Regulation and with the European Insurance and Occupational Pensions Authority (EIOPA) 'Guidance on systems of governance' and any other Solvency II regulation so far as it affects remuneration practices.
- Ensure that the Remuneration Policy aligns with the risk appetite of the Society and is consistent with the Society's long-term strategic goals.
- Review and monitor the remuneration of the Society's employees, including bonuses, commission, incentive payments and any other payments (such as severance payments).
- Oversee the Society's defined contribution scheme for individual Health Shield employees, ensuring that the external provider offers a good, affordable and sustainable scheme.
- Approve the design of, and determine targets for, any annual performance-related pay schemes operated by the Society and approve the total payments made under such schemes.
- Design all long-term incentive plans and submit them to the Board for its approval.
- Oversee any major changes in employee benefits structures throughout the Society.

## Risk Management Committee:

### Composition to April 2020:

#### Members:

Mrs A Alden	Chair
Mr A Phizacklea	Non-Executive Director
Mr C Chappell	Non-Executive Director – resigned 19 March 2020
Ms J Hansen	Non-Executive Director

#### Attendees:

Mr C Marsh	Chief Executive
Mr L Foster	Chief Risk and Data Officer
Mr S Hayhurst	Chief Operating Officer
Mr N Foskett	Chief Financial Officer
Miss S Dixon	Internal Audit Manager

### Composition from April 2020:

#### Members:

Mrs A Alden	Chair
Ms J Hansen	Non-Executive Director
Mr A Phizacklea	Non-Executive Director
Mr R Willison	Non-Executive Director

#### Attendees:

Mr C Marsh	Chief Executive
Mr L Foster	Chief Risk and Data Officer
Mr S Hayhurst	Chief Operating Officer
Mr N Foskett	Chief Financial Officer
Miss S Dixon	Internal Audit Manager

## Role

The Risk Management Committee provides an independent oversight and challenge across the Society's activities to help the Board fulfil its responsibilities for ensuring that there is an effective risk management system in place.

In addition, it oversees the Society's investment processes, within policies set by the Board, including the appointment of external advice and the management of the contractual relationship with any appointed external advisors.

## Duties

The key duties of the Risk Management Committee are to:

- Advise the Board and make recommendations as necessary, on the Society's overall risk appetite, tolerance and strategy, taking account of the current and prospective macro-economic and financial environment and drawing on financial stability assessments.
- Review and recommend to the Board the design and implementation of the Society's risk management and capital management policies and frameworks.
- Review and recommend for approval by the Board, the Society's annual Own Risk and Solvency Assessment (ORSA) report, the associated Corporate Plan and the ORSA policy.

- Keep under review the relationship with regulators and developments in the regulatory environment.
- Review and approve the Society's annual compliance plan and ensure that resources are in place to deliver it. Receive reports from the Chief Risk and Data Officer regarding compliance with regulatory requirements and keep under review the adequacy and effectiveness of the Society's compliance function.
- Review risk reporting to ensure that it is of sufficient quality to enable effective and timely identification of strategic, financial, operational and conduct risk and that risk exposures are within risk appetite with any appropriate mitigants in place.
- Oversee and advise the Board on the current risk exposures of the Society and future risk strategy.
- Ensure that a sound risk culture is developed and embedded by assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.
- Review the Society's capability to identify and manage new risk types. Consider the Executive's view on emerging risk and review the adequacy of any mitigating actions proposed by the Executive to address these risks.
- Review and advise the Board on any proposed strategic initiatives including partnerships; mergers and acquisitions; new product launches or changes in methods of distribution; and their impact on the Society's risk appetite and risk profile.
- Provide qualitative and quantitative advice to the Nomination and Remuneration committee on risk management considerations in its development and/or appraisal of targets and performance objectives for executive remuneration.
- Consider and approve the remit of the risk management function, ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- Ensure that the Chief Risk and Data Officer can operate with sufficient independence to discharge his/her responsibilities effectively.
- Review promptly all reports from the Chief Risk and Data Officer and Compliance Manager and monitor managements responsiveness to the finding and recommendations of these reports and those emanating from the Chief Actuary.
- Recommend to the Board for approval the Society's approach to market and liquidity risk management and monitor the market and liquidity risk appetite ensuring that appropriate actions are being taken by the executive team.
- Review the adequacy of the Society's Business Continuity Plan, recovery and resolution plan and information security procedures.

The key duties relating to the Society's investment process are:

- Agree and oversee the effective operation of a process for review and monitoring of the Society's investment of its assets.
- Review and recommend to the Board the Society's investment policy.
- Consider candidates for appointment as external Investment Advisors and, following a competitive tender process, recommend to the Board the selected candidates. Set out and agree the engagement terms and conditions, including the advisors remuneration.
- Undertake a further review of this appointment after three years or over a term agreed with the Board and go out to competitive tender, as necessary.
- Receive and consider reports from the appointed external Investment Advisors, both independently in Committee and face to face at agreed intervals. Monitor the performance of the investment portfolio against targets and benchmarks set by the Board.
- Continuously review the performance of the outsourced investment management function and recommend action as necessary.

## The Role of the Board of Management and its sub-committees in risk governance

### The Board of Management and its sub-committees

The Board has responsibility for determining the strategic direction of the Society and for creating the structures for risk management to operate effectively. It reserves the right to approve key policies, strategies and appointments. The Board must consider the nature of the risks that the Society is prepared to accept and the likelihood of such risks occurring.

It discharges this responsibility through several key risk and capital management processes, including approving the Society's Risk Management Policy and steering and approving the Society's Own Risk and Solvency Assessment (ORSA). It delegates authority to its sub-committees to consider specific areas of risk and capital in greater detail and to make recommendations to the Board of Management. The individual Terms of Reference for the Board of Management's sub-committees are detailed earlier in this report.

### The Three Lines of Defence

The Society's approach to risk management is built around a three lines of defence model. The Board has ultimate responsibility for risk management and the effectiveness of the risk management framework. The Board approves the Society's strategy and appetite for risk and ensures that appropriate capacity and capability is in place to manage and monitor risk in line with strategy and appetite.

**The Society's first line** is the Executive, senior managers, managers and staff who manage risks on a day to day basis.

**The Society's second line** is its Risk Management, Compliance and Actuarial Functions. The Risk Management Function facilitates and monitors the implementation of effective risk management practices by the first line and assists risk owners in defining risk exposure and reporting risk-related information throughout the Society. The Compliance function provides advice and guidance on legal and regulatory obligations and undertakes risk-based monitoring of key regulatory processes. The Actuarial Function provides actuarial expertise and advice, including setting the approach to and calculating the Society's technical provisions and delivering actuarial reporting, as required.

**The Society's third line** is the Internal Audit Function which provides independent assurance on the design and effectiveness of the internal control framework. It focuses its audit work on areas of significant risk and provides assurance on its management.

### Risk and capital management

Capital and solvency risk is defined as the failure to meet the Society's obligations as they fall due or that the value of its assets are less than its liabilities.

Solvency II requires that capital is held to support the risks to which the balance sheet is exposed. This minimum level of capital required is determined by the regulations. The Society uses the Standard Formula calculation, with regular review by the Society's Actuaries to determine that it remains appropriate. Capital is further managed in line with the Board's risk appetite and is central to the implementation of the risk framework. The Board sets its appetite for solvency beyond the minimum required by the regulations to ensure that an appropriate buffer is maintained.

### Key functions in risk governance

#### Risk Management Function

- To support the Society in understanding its material risks and in doing so; to reduce uncertainty and achieve its objectives, safely expand risk-taking ability, identify new opportunities and achieve a competitive advantage;
- The Risk Management function will support the first line to identify, measure, manage and report on risk at an individual and at an aggregated level;

- The Risk function will assist the Risk Management Committee in reviewing and recommending the Risk Appetite Statement and the Risk Management Policy to the Board for approval;
- The Risk Management function will provide an independent view on strategic and key business decisions, providing challenge as appropriate such that risk is explicitly considered in the decision-making process;
- The Risk Management function provides appropriate risk training to the Board, management team and staff.

### **Compliance Function**

- The Compliance function promotes compliance with applicable laws, regulations and expectations by communicating with, educating and challenging the Society on all its relevant activities;
- The Compliance function submits an annual plan of activity and resource to the Risk Management Committee.

### **Internal Audit Function – co-sourced between internal resource and PwC**

- The Internal Audit function provides independent assurance of the adequacy and effectiveness of the internal control system, including risk management framework;
- The Internal Audit function establishes, implements and maintains an audit plan setting out the audit work to be undertaken in the upcoming years, considering all activities and the complete system of governance of the Society;
- The Internal Audit function issues internal audit reports to the Audit Committee based on the results of work carried out, which includes findings, recommendations, a timescale for remedial action and the individual responsible;
- The Internal Audit function provides the Audit Committee with regular updates on the completion of agreed remedial actions and an annual Internal Audit Opinion Report.

### **Actuarial Function – outsourced to OAC Plc**

The Actuarial Function formally reports to the Board annually, including:

- Coordinating the calculation of the technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- Comparing best estimates against experience;
- Informing the Board of the reliability and adequacy of the calculation of technical provisions;
- Expressing an opinion on the overall underwriting policy;
- Expressing an opinion on the adequacy of reinsurance arrangements;
- Contributing to the effective implementation of the risk management system.

# Directors' Remuneration Report

## Introduction

This report sets out our Directors' Remuneration Policy for 2020.

## Policy

The Society is committed to employing high quality staff at every level of the organisation.

Remuneration for Executive Directors consists of a basic salary, both annual and deferred performance related awards linked to the Executive Directors' contribution to the Society and a benefits package.

Remuneration for Non-Executive Directors comprises an annual retainer fee together with an attendance fee for all meetings of the Board and sub-committees.

The Chair of the Board receives a higher annual retainer fee and an increased Board attendance fee to reflect the additional work and responsibilities of this position.

Sub-committee Chairs receive a higher attendance fee for that particular committee to reflect the additional work and responsibilities of this position.

## Executive Directors

### Salary

Salaries paid to Executive Directors are subject to annual review and all available information, including comparative market rates, is used in setting the levels of remuneration. The Society uses an external consultant for the benchmarking analysis at least every three years. Salary amendments are normally effective from July each year.

### Performance Related Pay

All Executive Directors have part of their total emoluments linked to business performance. Currently, Executive Directors can receive a discretionary annual performance related bonus of 40% of their base salary, half of which is deferred for a period of three years.

A review of the performance related pay scheme was undertaken during the year and changes to the structure are to be made for 2021. The details of the new scheme will be reported in the 2021 remuneration report.

### Retirement and Related Benefits

Executive Directors are members of the Society's defined contribution pension scheme. The scheme also provides a lump sum death in service benefit of up to four times the basic salary at the time of death. The retirement benefits offered to Executive Directors are identical to those offered to all staff members.

### Other Benefits

Each Executive Director receives additional discretionary benefits, those being medical insurance and a company car allowance.

### Directors' Contracts

No Executive Director has a service contract in excess of 12 months in accordance with Corporate Governance best practice.

## Non-Executive Directors

### Salary

Non-Executive Director fees are subject to annual review and all available information, including comparative market rates, is used in setting the levels of remuneration. The Society uses an external consultant for the benchmarking analysis at least every three years.

When setting these rates, it is assumed that to fulfil the role of Chair requires an average of five days per month, whereas to fulfil the standard role of a Non-Executive Director requires an average of at least three days per month. In addition, attendance will be required at regular Board meetings, special Board meetings, the Society's Annual General Meeting, at least one of the Society's regional meetings, Special General Meetings where appropriate and other ad-hoc meetings with regulators and advisors as may be required.

Amendments to fees, as recommended by the CEO and Chair, are subject to the approval of the Board as a whole, and are normally effective from July each year.

As part of this year's review of Non-Executive Director fees, it was agreed to revise the structure of these payments. This change is to be implemented in 2021.

### Performance Related Pay

Non-Executive Directors do not participate in the performance related pay scheme.

### Retirement and Related Benefits

Non-Executive Directors do not participate in the Society's defined contribution pension scheme.

### Other Benefits

Non-Executive Directors do not receive any additional benefits.

### Summary

This report, together with the disclosures overleaf, is provided to give members a full explanation of the policy and application of Directors' Remuneration.

A resolution will be put to the Annual General Meeting inviting delegates to vote on the Directors' Remuneration Report. This vote is advisory and the Board will consider what action is required.

# Directors' Remuneration Report (continued)

## Directors' Emoluments

	Salary and Fees	Performance Related Pay	Other Benefits	Total 2020	Total 2019
<b>Non-Executive Directors</b>					
J Hansen	£43,751	£-	£-	£43,751	£23,073
D Allen (retired 1 September 2019)	£-	£-	£-	£-	£31,387
D Maddison	£21,688	£-	£-	£21,688	£28,459
A Phizacklea	£23,919	£-	£-	£23,919	£26,703
M Carpenter (retired 17 May 2019)	£-	£-	£-	£-	£10,514
C Chappell (resigned 19 March 2020)	£5,549	£-	£-	£5,549	£21,956
C Gannon (resigned 19 March 2020)	£5,549	£-	£-	£5,549	£23,801
S Robinson (resigned 19 March 2020)	£5,549	£-	£-	£5,549	£21,963
A Alden	£25,404	£-	£-	£25,404	£22,323
P Austin (appointed 9 April 2020)	£18,948	£-	£-	£18,948	£-
R Willison (appointed 9 April 2020)	£18,948	£-	£-	£18,948	£-
<b>Executive Directors</b>					
C Marsh	£158,603	£17,276	£26,453	£202,332	£212,313
P Wood (resigned 31 May 2019)	£-	£-	£-	£-	£268,163
S Hayhurst (appointed 7 February 2020)	£119,818	£11,529	£35,774	£167,121	£-
<b>Total</b>	<b>£447,726</b>	<b>£28,805</b>	<b>£62,227</b>	<b>£538,758</b>	<b>£690,655</b>

## Statement of Chief Actuary

The Chief Actuary to Health Shield Friendly Society Limited is Mrs Cara Spinks of OAC Plc (OAC).

The Society has requested Mrs Spinks to furnish it with the particulars required under the Financial Services & Markets Act 2000 and section 77 of the Friendly Societies Act 1992.

Mrs Spinks has confirmed that neither she, nor her family, nor any of her colleagues have any pecuniary interests in the Society other than the fees paid to OAC, and with the exception detailed below.

OAC holds a health cash plan provided by the Society and therefore Mrs Spinks and her colleagues are members of the Society. The internal administration of this plan within OAC is managed by OAC employees who are not involved in the provision of services to the Society. No OAC employee who is involved in the provision of services to the Society is able to influence or benefit from this contract other than as a standard employee under the terms and conditions of the plan.

The total fees payable to OAC for professional services during the year amounted to £128,386 (2019 actuarial fees were split as the Society changed its Chief Actuary during the year: £44,103 to OAC, £118,973 to Oliver Wyman).

# Independent auditor's report to the members of Health Shield Friendly Society Limited

## Opinion on the financial statements

In our opinion the financial statements:

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

We have audited the financial statements of Health Shield Friendly Society Limited (the 'Society') and its subsidiaries ("the Group") for the year ended 31 December 2020 which comprise the Consolidated Income and Expenditure Account, the Society Income and Expenditure Account, the Consolidated Statement of Other Comprehensive Income, the Society Statement of Other Comprehensive Income, the Consolidated Balance Sheet, the Society Balance Sheet, the Consolidated Statement of Changes in Equity, the Society Statement of Changes in Equity, and Notes to the Financial Statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and Financial Reporting Standard 103 *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice).

## 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

## Independence

We were appointed by the Board of Directors in September 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the year ending 31 December 2020.

We remain independent of the Group and 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. The non-audit services prohibited by that standard were not provided to the Group.

## Conclusions relating to going concern

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

- Review and challenge of the Groups current plans and budgets, challenging growth assertions and ensuring that movements were in line with justifiable assumptions and movements; and
- Challenge and discussion around the latest Own risk and Solvency Assessment provided by the Group and Society. In addition we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged management as to the future assumptions embedded within the model. We have also ensured that the modelling used for solvency is in line with industry standards.

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

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

## Overview

<b>Coverage<sup>1</sup></b>	100% (2019- 100%) of Group technical provisions 100% (2019- 100%) of Group fund for future appropriations 100% (2019- 100%) of Group total assets 98% (2019-97%) of Group revenue		
<b>Key audit matters</b>		<b>2020</b>	<b>2019</b>
	<b>KAM 1</b>	Determination of actuarial assumptions for valuation of the Long Term Business Provision	Determination of actuarial assumptions for valuation of the Long Term Business Provision
	<b>KAM 2</b>	Valuation of owner occupied property	Valuation of owner occupied property
<b>Materiality</b>	Group Financial Statements as a whole: £830,000 (2019: £820,000) based on 1.75% (2.1%) of Funds for Future Appropriation (FFA).		

<sup>1</sup> These are areas which have been subject to a full scope audit by the group engagement team

## An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Group and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Society is principally involved in providing health cash plan insurance policies in the UK. We undertook a full scope audit of the Society, the significant component. For the non-significant components, Medex Protect Limited and Prevent Limited, which together equate to 2% of group revenue (2019: 3%), we carried out analytical review procedures and audit of certain account balances and transactions. Our approach to the audit is risk based, with our audit work being tailored to ensure that sufficient assurance was gained for us to be able to give an opinion on the financial statements as a whole. Specific audit procedures were carried out on all risk areas identified, including the key audit matters detailed below, and on all material balances and classes of transactions. The audit team performed all aspects of the audit with the use of appointed experts in assessing insurance liabilities.

## 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) that 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.

Description of Key Audit Matter		Procedures performed to address this risk
<p>Determination of actuarial assumptions for valuation of the Long Term Business Provision</p> <p>The financial statements include a Long Term Business Provision of £1,081k (2019: £2,838k). Refer to the Long Term Business Provision accounting policy and further information given in note 15.</p>	<p>There is an inherent risk that provisions for claims can be misstated due to the fact that estimates are necessarily involved, and as such, there is an element of subjectivity in any such provision.</p> <p>The calculation of the Society's Long Term Business Provision requires management to make significant judgements about a variety of factors including (but not limited to) mortality assumptions, lapse rate, investment yields, discount rates and the current expectation of future expenses.</p>	<p>In assessing the valuation of the insurance Long Term Business Provisions, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We engaged an independent external actuarial expert to report to us on the actuarial methodology and assumptions applied in the calculation of the Long Term Business Provision and the accuracy of the provisions themselves.</li> <li>• When selecting our independent auditor's expert we evaluated their independence, objectivity, and competence to provide the required audit support.</li> <li>• We obtained and reviewed the actuarial reports prepared by the Society's Actuarial Function Holder and our independent expert also reviewed these documents in order to ensure that all relevant judgements and estimates have been considered in forming our opinion.</li> <li>• We have challenged the conclusions arrived at by our independent actuary and ensured that processes are in accordance with both Technical Actuarial Standards (TAS) and industry practices.</li> <li>• With assistance from our independent expert we reviewed and assessed the assumptions used in the calculation of the Long Term Business Provision to ensure these are reasonable and in line with acceptable parameters.</li> <li>• We tested the underlying data used by the Society's Actuarial Function Holder in their calculation of the Long Term Business Provision to ensure the completeness and accuracy of the data inputs by matching to the Society's accounting records which we have tested on a substantive basis as part of our audit.</li> </ul> <p><b>Key observations:</b></p> <p>From the audit work performed we gained assurance over the valuation of the Long Term Business Provision and the appropriateness of the methodology, assumptions and judgements used.</p>

Description of Key Audit Matter		Procedures performed to address the risk
<p>Valuation of owner occupied property (disclosed in tangible fixed assets) - £2,667k (2019: £2,667k)</p> <p>Refer to the Owner Occupied Property accounting policy and further information given in note 10.</p>	<p>Estimating the fair value of the owner occupied property requires the selection of assumptions, such as open market value and assessment of the future rental income that could be achieved the property were to let.</p> <p>Management engage independent property experts to assist in reviewing and selecting these assumptions in the annual valuation.</p> <p>Because of the extent of the judgement involved in the determination of the valuation assumptions this issue represents a key audit matter.</p>	<p>Our audit work in respect of the valuation of investment property included:</p> <ul style="list-style-type: none"> <li>Evaluating the competence, capability and objectivity of management's experts and reviewing the valuation reports to ensure that the valuations were based on fair value.</li> <li>Engaging directly with management's expert to discuss the assumptions used in the preparation of their valuation.</li> <li>Evaluated the assumptions used by management and their property experts for the owner occupied property. This included the comparison of assumptions used by management's property experts against published market benchmarks. This has been done to identify whether any the assumptions used are inconsistent with current market information. We engaged with an internal BDO Real Estate expert to assist us in this aspect of our work and evaluated their competence to provide the required audit support.</li> </ul> <p><b>Key observations:</b></p> <p>From the audit work performed, we gained assurance over the valuation of the owner occupied property and the appropriateness of the methodology, assumptions and judgements used.</p>

## Our application of materiality

Materiality is defined as the size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement. Materiality is an important judgement we make as part of establishing our overall audit strategy and is used throughout the audit process, including in the evaluation of our audit work and when forming our audit opinion. Based on our professional judgement, materiality was determined as follows:

	Group financial statements		Society financial statements	
	2020 £ 000's	2019 £ 000's	2020 £ 000's	2019 £000's
<b>Materiality</b>	830	820	829	820
<b>Basis for determining materiality</b>	1.75% of fund for future appropriations	2.1% of fund for future appropriations	1.75% of fund for future appropriations	2.1% of fund for future appropriations
<b>Performance materiality</b>	540	533	540	533
<b>Basis for determining performance materiality</b>	65% of Materiality	65% of Materiality	65% of Materiality	65% of Materiality

In establishing an appropriate benchmark to use, we considered various financial measures including those used by the management in their internal reporting, other relevant measures such as regulatory capital surplus, and industry practice. Fund for future appropriation was considered the most appropriate metric for the Society.

In 2019 we utilised a lower specific materiality for items impacting income alone (such as premiums, claims paid and operating expenses) to ensure adequate audit consideration, however, given the size of the transactions in the income statement, we do not consider this to be necessary for the year-ended 31 December 2020.

## Performance materiality

Performance materiality is the application of materiality at the individual account or balance level set at an amount 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.

Performance materiality was set at £540,000 (2019: £533,000) which represents 65% (2019: 65%) of the above materiality levels. Performance materiality represents 65% of overall financial statement materiality and was based on our overall assessment of the control environment and a low level of misstatements in the past.

## Reporting threshold

Although misstatements below this threshold are also reported where the nature of the misstatement warrants reporting, such as where items are clearly wrong or they are indicative of fraud. This has been set at £25,000 (2019: £24,000).

## Other information

The directors are responsible for the other information. The other information comprises the information included in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements.

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

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

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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 17, the directors 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 directors 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 directors 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 directors 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Capability of the audit to detect irregularities, including fraud

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

We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, including the valuation of the long term business provision and the valuation of owner-occupied property.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls and the risk of fraud including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

We remained alert to any indications of non-compliance throughout our audit, specifically through enquiries of management and those charged with governance, review of Board meeting minutes and correspondence with regulators. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates, and considered the risk of acts by the Society which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Friendly Societies Act 1992, PRA and FCA rules, FRS 102 and FRS 103. We obtained our understanding through internal and external training, the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

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.

We focused on laws and regulations that could give rise to a material misstatement in the Society financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the PRA and FCA; and
- review of the Society's Internal Audit reports.

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, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

## 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.



John Perry (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

United Kingdom

1 April 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated Income and Expenditure Account

## for the Year Ended 31 December 2020

	Note	2020		2019	
		£	£	£	£
<b>Earned premiums</b>					
Gross written premiums		40,487,568	41,821,877		
Outward reinsurance premiums		(36,864)	(30,450)		
Premiums written net of reinsurance		<u>40,450,704</u>	<u>41,791,427</u>		
Discounts allowed		(120,316)	(182,022)		
Change in provision for unearned premiums	8	303,744	(23,408)		
Net earned premiums	3		<u>40,634,132</u>		<u>41,585,997</u>
<b>Investment income</b>					
Bank interest		911	967		
Income from listed investments	11	695,363	995,812		
Gain from realisation of Investments	11	<u>1,087,034</u>	<u>938,556</u>		
			1,783,308		1,935,335
<b>Unrealised (loss)/gain on investments</b>	11		(262,566)		2,260,360
<b>Other income</b>					
Commission income	3	456,418	562,927		
Fee income	3	197,055	728,544		
Grant income	3	<u>347,809</u>	<u>-</u>		
			1,001,282		1,291,471
			<u><b>43,156,156</b></u>		<u><b>47,073,163</b></u>
<b>Claims incurred</b>					
Member benefits and claim costs			(21,569,607)		(32,345,545)
<b>Change in other technical provisions</b>					
Long-term business provision	15		1,756,683		572,805
<b>Net operating expenses</b>					
Operating expenses	6		(13,799,098)		(16,254,958)
			<u><b>(33,612,022)</b></u>		<u><b>(48,027,698)</b></u>
Tax expense	5		25,202		(24,520)
<b>Surplus / (deficit) for the year</b>			<u><b>9,569,336</b></u>		<u><b>(979,055)</b></u>

All income and expenditure in both the current and preceding year relate to continuing activities

# Society Income and Expenditure Account

## for the Year Ended 31 December 2020

	Note	2020		2019	
		£	£	£	£
<b>Earned premiums</b>					
Gross written premiums		40,487,568	41,821,877		
Outward reinsurance premiums		(36,864)	(30,450)		
Premiums written net of reinsurance		<u>40,450,704</u>	<u>41,791,427</u>		
Discounts allowed		(120,316)	(182,022)		
Change in provision for unearned premiums	8	303,744	(23,408)		
Net earned premiums	3		<u>40,634,132</u>		<u>41,585,997</u>
<b>Investment income</b>					
Bank interest		909	189		
Income from listed investments	11	695,363	995,812		
Gain from realisation of Investments	11	<u>1,087,034</u>	<u>938,556</u>		
			1,783,306		1,934,557
<b>Unrealised loss/gain on investments</b>	11		(262,566)		2,260,360
<b>Other income</b>					
Grant income	3	<u>347,809</u>	-		
			347,809		-
			<u>42,502,681</u>		<u>45,780,914</u>
<b>Claims incurred</b>					
Member benefits and claim costs			(21,569,607)		(32,345,545)
<b>Change in other technical provisions</b>					
Long-term business provision	15		1,756,683		572,805
<b>Net operating expenses</b>					
Operating expenses	6		(12,500,142)		(14,356,764)
			<u>(32,313,066)</u>		<u>(46,129,504)</u>
Tax expense	5		-		-
<b>Surplus / (deficit) for the year</b>			<u>10,189,615</u>		<u>(348,590)</u>

All income and expenditure in both the current and preceding year relate to continuing activities

## Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020

	2020 £	2019 £
<b>Surplus / (deficit) for the Year</b>	9,569,336	(979,055)
<b>Other comprehensive income</b>		
Revaluation of occupied land and buildings	-	180,000
<b>Total comprehensive surplus / (deficit) for the year</b>	9,569,336	(799,055)
Total comprehensive surplus / (deficit) attributable to:		
Owners of the parent	9,569,336	(799,055)

## Society Statement of Comprehensive Income for the Year Ended 31 December 2020

	2020 £	2019 £
<b>Surplus / (deficit) for the Year</b>	10,189,615	(348,590)
<b>Other comprehensive income</b>		
Revaluation of occupied land and buildings	-	180,000
<b>Total comprehensive surplus / (deficit) for the year</b>	10,189,615	(168,590)

# Consolidated Balance Sheet

## 31 December 2020

	Note	2020 £	2019 £
<b>Fixed Assets</b>			
Intangible assets	9	3,303,301	2,464,703
Tangible assets	10	5,072,268	4,920,115
Investments	11	31,700,300	32,440,508
		<hr/> 40,075,869	<hr/> 39,825,326
<b>Current Assets</b>			
Stocks		8,234	19,842
Debtors	12	4,271,184	4,954,214
Cash & cash equivalents		9,397,644	1,292,956
		<hr/> 13,677,062	<hr/> 6,267,012
<b>Creditors</b>			
Amounts falling due within one year	13	(3,658,006)	(3,810,066)
		<hr/> 10,019,056	<hr/> 2,456,946
<b>Total Assets less Current Liabilities</b>			
		50,094,925	42,282,272
Provisions for Liabilities	15	(1,081,009)	(2,837,692)
		<hr/> 49,013,916	<hr/> 39,444,580
<b>Reserves</b>			
Fund for future appropriations		48,781,666	39,212,330
Revaluation reserve		232,250	232,250
		<hr/> 49,013,916	<hr/> 39,444,580

The financial statements of Health Shield Friendly Society (registered number 50F) were authorised for issue by the Board on 1 April 2021 and signed on its behalf by:

Julie Hansen – Member of the Board



Paul Austin - Member of the Board



Courtney Marsh – Chief Executive



# Society Balance Sheet

## 31 December 2020

	Note	2020 £	2019 £
<b>Fixed Assets</b>			
Intangible assets	9	2,058,125	1,027,745
Tangible assets	10	4,932,642	4,789,790
Investments	11	33,607,228	34,347,435
		<hr/> 40,597,995	<hr/> 40,164,970
<b>Current Assets</b>			
Debtors	12	6,398,669	6,496,568
Cash & cash equivalents		8,831,878	958,444
		<hr/> 15,230,547	<hr/> 7,455,012
<b>Creditors</b>			
Amounts falling due within one year	13	(3,453,001)	(3,677,372)
		<hr/> 11,777,546	<hr/> 3,777,640
<b>Total Assets less Current Liabilities</b>			
		52,375,541	43,942,610
Provisions for Liabilities	15	(1,081,009)	(2,837,692)
		<hr/> 51,294,532	<hr/> 41,104,918
<b>Reserves</b>			
Fund for future appropriations		51,062,282	40,872,668
Revaluation reserve		232,250	232,250
		<hr/> 51,294,532	<hr/> 41,104,918
<b>Society's surplus / (deficit) for the financial year (entity only)</b>			
		10,189,615	(348,349)

The financial statements of Health Shield Friendly Society (registered number 50F) were authorised for issue by the Board on 1 April 2021 and signed on its behalf by:

Julie Hansen – Member of the Board



Paul Austin – Member of the Board



Courtney Marsh – Chief Executive



## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020

	Revaluation reserve	Fund for future appropriations	Total equity
	£	£	£
<b>Balance at 1 January 2019</b>	52,250	40,191,385	40,243,635
<b>Changes in equity</b>			
Surplus / (deficit) for the year	-	(979,055)	(979,055)
Other comprehensive income	180,000	-	180,000
	180,000	(979,055)	(799,055)
<b>Balance at 31 December 2019</b>	232,250	39,212,330	39,444,580
<b>Changes in equity</b>			
Surplus / (deficit) for the year	-	9,569,336	9,569,336
Other comprehensive income	-	-	-
Total comprehensive income	-	9,569,336	9,569,336
<b>Balance at 31 December 2020</b>	232,250	48,781,666	49,013,916

## Society Statement of Changes in Equity for the Year Ended 31 December 2020

	Revaluation reserve	Fund for future appropriations	Total equity
	£	£	£
<b>Balance at 1 January 2019</b>	52,250	41,221,017	41,273,267
<b>Changes in equity</b>			
Surplus / (deficit) for the year	-	(348,349)	(348,349)
Other comprehensive income	180,000	-	180,000
	180,000	(348,349)	(168,349)
<b>Balance at 31 December 2019</b>	232,250	40,872,668	41,104,918
<b>Changes in equity</b>			
Surplus / (deficit) for the year	-	10,189,615	10,189,615
Other comprehensive income	-	-	-
Total comprehensive income	-	10,189,615	10,189,615
<b>Balance at 31 December 2020</b>	232,250	51,062,283	51,294,533

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

## 1. ACCOUNTING POLICIES

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### General information and basis of accounting

The principal accounting policies are summarised below. They have been applied consistently throughout the year and to the preceding year. Health Shield Friendly Society Limited is a registered Friendly Society under the Friendly Society Act 1992. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 9 - 16.

The financial statements have been prepared under the historical cost conventions, modified to include certain items at fair value, in accordance with Financial Reporting Standards 102 and 103 (FRS 102 and FRS 103) issued by the Financial Reporting Council. The financial statements are also drawn up in accordance with the rules set out in Schedule 6, Part III of the Friendly Societies (Accounts and Related Provisions) Regulations 1994 No. 1983.

The functional currency of the Society is considered to be pounds sterling because that is the currency of the primary economic environment in which the Society operates. The consolidated financial statements are also presented in pounds sterling. Health Shield Friendly Society Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements.

For the year ended 31 December 2020 the following subsidiaries of the Society were entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies:

Subsidiary Name	Companies House Registration Number
Prevent Limited	04589315
iHealth System Limited	07912352
Medex Protect Limited	08792006
Health Shield Wellbeing Limited	10415782
Health Shield Insurance Services Limited	04145366

### Financial Reporting Standard 102 - reduced disclosure exemptions

The group has taken advantage of the following disclosure exemption in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- The requirements of Section 7 Statement of Cash Flows.

### Basis of consolidation

The Group financial statements consolidate the financial statements of Health Shield Friendly Society Limited and its trading subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired are consolidated for the periods from the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

### Going concern

The Board of Health Shield has considered in detail the Society's forecast performance, as well as its capital and liquidity resource requirements and any potential implications resulting from COVID-19 and Brexit. On this basis the Board has a reasonable expectation that the Society has sufficient capital and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing these accounts. The Strategic Report provides further details of the Society's going concern assessment.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 1. ACCOUNTING POLICIES (continued)

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### Earned premiums

Premiums are recognised in the period to which they relate. Unearned premiums representing the unexpired element of risk spread on a straight line basis are recognised on the Balance Sheet as a liability. Reinsurance was in place for the current and previous year and is charged in the period to which it provides cover.

### Fee and commission income

Fee and commission income are recognised in the period in which the services are provided. Commission income relates to commissions receivable from insurance mediation activities. Fee income relates to fees receivable from health screening and occupational health programs.

### Grant income

Grant income, including amounts received under the governments Coronavirus Job Retention Scheme, is recognised at the fair value received or receivable when there is reasonable assurance that the grant conditions will be met and the grant will be received. Income is recognised in other income on a systematic basis over the periods in which the associated costs are incurred, using the accrual model.

### Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 10 years. Provision is made for any impairment.

The subsidiary undertakings are strategic investments that the Society expects to hold and derive benefit from for in excess of 10 years. A definitive estimate of the extent of this time frame cannot be made at present therefore, in accordance with FRS102, the maximum life of 10 years has been used.

### Intangible assets

Software costs are capitalised as intangible assets if it is probable that the asset created will generate future economic benefits. Software costs are amortised using the straight line method over their useful lives (up to 10 years). The amortisation periods used are reviewed annually.

Software values are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

Software costs under construction are not amortised. Amortisation of software costs begins when the asset is available for use.

### Tangible fixed assets

Tangible fixed assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Improvements to property	Up to 25 years straight line
Fixtures, fittings & equipment	Up to 10 years straight line
Computer equipment	Up to 6 years straight line

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 1. ACCOUNTING POLICIES (continued)

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### Owner Occupied Property

All property owned by the Society is long leasehold and is included under 'Land and Buildings' within Tangible Assets on the Balance Sheet at fair value in accordance with the Friendly Societies Act 1992. Under FRS 102 Section 17, the Society has elected to adopt the fair value option, with changes in fair value of the occupied property recognised in other comprehensive income, with a corresponding revaluation reserve held. Property is professionally revalued every year in accordance with generally recognised methods of valuation. No depreciation is provided on the basis that the assets are held at fair value.

### Investments

In the Society's individual accounts, investments in subsidiaries are measured at cost less accumulated impairment.

Listed investments are deemed to be basic financial instruments under FRS 102, and are classified under Section 11. Investments are included at market value at the year-end bid price. Realised gains and losses on investments are calculated as the difference between the sales proceeds and the purchase price. Movements in unrealised gains and losses on investments represent the difference between their historic cost and market valuation at the balance sheet date, together with the reversal of unrealised gains and losses in earlier accounting periods in respect of investment disposals in the current period.

### Financial instruments

The Society only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective rate of interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Society would receive for the asset if it were to be sold at the balance sheet date.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 1. ACCOUNTING POLICIES (continued)

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### Foreign currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in pounds sterling, which is the group's functional and presentation currency.

Foreign currency transactions are translated into the group entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income and expenditure account.

### Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax repayable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting period. The Society is exempt from taxation.

### Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the investment date and that are readily convertible to cash with insignificant risk of change in value.

### Short-Term Debtors and Creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price less impairment.

### Claims

Claims are charged to expenditure when notified. Provision for claims incurred but not yet notified at the end of the year are included in the long-term business provision.

### Investment Income

Investment income is included on the accruals basis. Dividend income is included on the ex-dividend basis.

### Stocks

Stocks are stated at the lower of cost and net realisable value.

### Pensions

Amounts payable under defined contribution schemes are charged in the Income and Expenditure Account as incurred. Amounts not yet settled at the year-end are included on the balance sheet as a liability.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 1. ACCOUNTING POLICIES (continued)

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### Long-Term Business Provision

The valuation methodology is based on the gross premium method. The reserves are calculated by discounting the members' expected future benefits, commission payable, IPT and expenses less the members' future premiums. The calculation of the long-term business provision is based on the Solvency II technical provisions (under the standard formula), without any adjustments. No allowance has been made for transitional measures for liabilities calculations, volatility adjustment or matching adjustment.

The Solvency II technical provisions comprise of the best estimate liabilities plus a "risk margin" which reflects the cost of "unhedgable risks" which an external buyer of the business would theoretically require. Its calculation methodology is prescribed by the regulations under Solvency II based on applying a 6% "cost of capital" to the SCR capital requirements associated with certain types of risk.

The accounting policy has been applied consistently since the introduction of the Solvency II regulations.

### Leasing Contracts

Rentals paid under operating leases are accounted for on a straight line basis over the term of the lease. Lease incentives are spread over the lease term on a straight line basis.

### Fund for Future Appropriations

The fund for future appropriations represents total members' funds and will enable the Society to maintain the level of benefits payable to its membership.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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In the application of the Society's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts 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.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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### Critical judgements in applying the Group's accounting policies

The critical area where accounting judgements are made is as follows:

#### Impairment of Goodwill

At each reporting date, the Society reviews the carrying value of its Goodwill to determine whether there is any indication of impairment. The review is made in conjunction with the Society's latest business plan and if any indication of impairment exists, the goodwill balance is written down to its recoverable amount.

#### Impairment of Intangible Assets

At each reporting date, the Society reviews the carrying value of its Intangible Assets to determine whether there is any indication of impairment. The review is made in conjunction with the Society's business plan and if any indication of impairment exists, the goodwill balance is written down to its recoverable amount.

#### Valuation of Property

The Society's property is valued using a number of market standard assumptions. The Society engages a professionally qualified valuer to provide this valuation.

### Key source of estimation uncertainty

The key source of estimation uncertainty is as follows:

#### Estimates of future benefit payments arising from long-term insurance contracts

The Society makes estimates of the expected number of claims for each of the years that it is exposed to risk.

These estimates are based on the Society's own experience as standard tables for cash plans are not available. In addition, the Society makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on standard mortality tables; adjusted to reflect the Society's own experience.

The Society makes estimates of voluntary contract termination, investment returns and administration expenses at the inception of long-term insurance contracts. These estimates, which are reconsidered annually, form the assumptions used to calculate the liabilities arising from these contracts.

Due to the long-term nature of these obligations, significant judgements (on areas such as morbidity and expense rates) have to be exercised in estimating the long-term business provision (LTBP). These are outlined in note 7. The impact of a 10% increase/decrease in morbidity would be to increase/decrease the LTBP by £2.1 million. The impact of a 10% increase/decrease in expense rates would be to increase/decrease the LTBP by £0.5 million.

When assessing assumptions relating to investment returns the Society makes estimates of the impact of defaults on the related financial assets. The estimates are reassessed annually.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 3. INCOME

	2020 £	2019 £
An analysis of the Group's income by class and category is as follows:		
Net earned premiums from cash plan business	40,634,132	41,585,997
Commission income from insurance mediation	456,418	562,927
Fee income from health screening and occupational health programmes	197,055	728,544
Grant income	347,809	-
	41,635,414	42,877,468

All income relates to business written in the United Kingdom.

## 4. EMPLOYEES AND DIRECTORS

	<u>Group</u>		<u>Society</u>	
	2020 £	2019 £	2020 £	2019 £
(a) Employment costs, including Directors, during the year:				
Wages and salaries	5,690,541	6,596,564	5,405,549	5,909,682
Social security costs	674,979	683,244	642,971	614,926
Other pension costs - note 4 (d)	391,145	414,229	373,305	379,161
	6,756,666	7,691,037	6,421,825	6,903,769

(b) Average number of employees during the year (including Executive & Non-Executive Directors):

Administration	127	127	113	109
Claims	18	21	18	21
Acquisition	39	41	39	41
Total	184	189	170	171

(c) Aggregate emoluments of Key Management Personnel:

	2020 £	2019 £
Salaries and other emoluments	964,565	1,121,676
Pension contributions	96,412	80,641
	1,060,977	1,202,317

	Number	Number
Number of Directors who are members of a money purchase pension scheme	2	2

In respect of the highest paid Director:	£	£
Total emoluments	202,332	268,163

# Notes to the Consolidated Financial Statements (continued)

## For the Year Ended 31 December 2020

### 4. EMPLOYEES AND DIRECTORS (continued)

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#### (d) Pension costs

The society has a defined contribution pension scheme open to all employees. The assets of the scheme are held separately from the Society, being invested with an insurance company and do not form part of these accounts.

The pension cost charge represents contributions payable to the scheme. The amount due to the scheme at 31 December 2020 was £62,607 (2019 - £77,850).

### 5. TAXATION

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#### Analysis of the tax charge

The tax charge on the loss for the year was as follows:

	2020	2019
	£	£
Current tax:		
UK corporation tax	(25,202)	24,520
Tax on loss	(25,202)	24,520

#### Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2020	2019
	£	£
Surplus / (deficit) before tax	9,544,134	(954,536)
Surplus / (deficit) multiplied by the standard rate of corporation tax in the UK of 19%	1,813,578	(181,362)
Effects of:		
Income not taxable	(1,899,578)	99,077
Increase in tax losses carried forward	86,193	106,805
Utilisation of loss relief	(25,202)	-
	(25,202)	24,520

'Other business' of life assurance companies is exempt from corporation tax under s.165 Finance Act 2012 (previously s.461 ICTA 1988). Following a change in the benefits provided to members from 1 January 2008, the parent company is exempt from taxation.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 6. NET OPERATING EXPENSES

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	2020	2019
	£	£
Acquisition costs	3,530,240	5,131,538
Administrative costs	10,171,710	11,014,824
Investment management expenses	97,152	108,596
	<hr/>	<hr/>
	13,799,102	16,254,958

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Net operating expenses includes the following:

Fees payable to the Society's Auditor for audit assurance services	93,480	92,400
Hire of equipment - operating leases	325,376	222,473
Commission	2,568,775	2,631,571
Actuarial function holder's remuneration	128,386	163,076
(Profit)/loss on disposal of fixed assets	(2,040)	39,143
Amortisation of goodwill	191,782	184,574
Depreciation of owned fixed assets	403,519	448,465

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# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT

### Capital Management

The Society retains sufficient levels of capital to meet key objectives:

- To ensure the financial stability of the Society, now and for the future
- To enable the Society's strategy to be developed and funded
- To provide confidence to members and other stakeholders who have relationships with the Society, that the business is financially robust and well managed; and
- To comply with capital requirements imposed by the Prudential Regulation Authority (PRA)

The Society's current and forecast capital position is regularly reviewed, through its Own Risk and Solvency Assessment (ORSA) process, to ensure that the Business has an acceptable level of solvency which is in line with the Board's risk appetite. The ORSA process also considers the impact on solvency of the Society's various products.

The Society projects its capital position, both on the Solvency II standard formula basis and in line with the Board's risk appetite. The Society's projections are then stressed, including reverse stress testing, to validate the Society's current business plan and to support strategic decisions making and product development.

The table below summarises the capital resources and requirements of Health Shield Friendly Society Limited as determined for UK regulatory purposes.

	31 Dec 2020 £	31 Dec 2019 £
Life business UK non-participating		
Fund for Future Appropriations	48,781,666	39,212,330
Regulatory solvency adjustments	(4,653,708)	(3,571,430)
<b>Total available capital resources (Solvency II)</b>	<b>44,127,958</b>	<b>35,640,900</b>

Total available capital resources are 3.8 times (2019: 3.2 times) the Solvency II capital requirement (unaudited).

### Management of risk

The Board has approved a risk management policy which establishes that the Society accepts a degree of risk in the belief it will have a positive outcome and generate value for its members. The Board recognises that it must find an appropriate balance between risk and reward. To do this the Board requires that the Society identifies its risks, understands its capacity to effectively manage or withstand those risks, and articulates its appetite for those risks accordingly.

To implement this policy, the board has developed a risk management framework which forms an integral part of ensuring that the Society's risks are managed and its objectives and business strategy are achieved. Effective management of risks is essential to maintain; the financial stability of the Society for its members, employees and other stakeholders; the value of its assets; and its reputation and standing within the market.

The risk management policy requires that, for all key business decisions, the risk to and the effect on capital is considered in the decision-making process. This is achieved through the ORSA process which provides the Board with the appropriate information to make an informed decision.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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The key risks facing the Society, all of which are typical for a business of the size, type and scale of the Society, have been identified as follows:

- Insurance risk
- Market risk
- Counterparty risk
- Liquidity risk
- Operational risk
- Business risk

### Insurance risk

Insurance risk is the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The key insurance risks for the Society are increases in morbidity, claims or expenses.

To mitigate morbidity risk the Society regularly reviews the benefits and premiums offered to its members. These reviews aim to optimise a balance between a fair and competitive product offer to members and the capital needs of the Society, in terms of retaining sufficient capital to meet its liabilities.

The other major insurance risks are persistency risk (claims) and expense risk. Persistency risk occurs if either high claiming members remain with the Society or low claiming members leave it. Expense risk occurs when costs are higher than expected or planned.

Systems are in place to measure, monitor and control exposure to all these risks. In particular, the Society's risk reporting and management information informs decision making by the executive team and management team.

The Society's core product is a health cash plan so will incur concentration risk by product naturally. In addition, as the Society has written all of its business in the United Kingdom, results are sensitive to demographic and economic changes arising in the UK.

The Society seeks to mitigate the risk of excess concentrations of risk by selling its product throughout the UK without restriction by gender or industry.

The primary responsibility for managing insurance risk falls to the Risk Management Committee. This committee has responsibility for setting policy for monitoring the levels of risk arising from morbidity, persistency expenses and concentration.

The table presented below demonstrates the sensitivity of the Long-Term Business Provision (LTBP) and available capital to movements in assumptions. The sensitivities selected are those which might reasonably be expected to occur:

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Variable	Change in Variable	Change in LTBP £000s	Change in Available Capital £000s (Solvency II)
Morbidity	+10%	2,124	(2,124)
Morbidity	-10%	(2,113)	2,113
Interest	+1% per annum	(9)	(698)
Interest	-1% per annum	10	770
Expenses	+10%	549	(549)
Expenses	-10%	(548)	548
Contract Boundaries	+1 month	(246)	246
Contract Boundaries	-1 month	235	(235)
Mortality	+10%	(7)	7
Mortality	-10%	8	(8)

In a situation where the morbidity experience of the Society increased by the levels shown in the table above, the Society would review its premium and benefit structure to mitigate the impact. The LTBP is relatively insensitive to mortality but quite sensitive to expenses. When interest rates change, any movement in the LTBP is offset in the movement of available capital by an opposite change in asset values.

### Market risk

Market risk is the risk of an adverse impact on the Society's solvency position due to decreases in equity prices or property prices and adverse movements in interest rates, exchange rates or bond spreads.

The Society manages its market risks through its Risk Management Committee and has an Investment Policy which the Society's investment managers are required to follow in order to safeguard the Society's investments. The Investment Policy contains, among other things, guidance on the ranges and volume (as a percentage of its portfolio) of assets which the Society is willing to hold. Any deviations from these guidelines must be reported via the monthly performance reports from the investment managers. Market risk is comprised of a number of individual risks to which the Society is exposed, as follows:

#### *Equity risk*

Equity risk is the risk that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices (other than those arising from interest rate risks). These changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities. Based on the Society's current asset portfolio, its largest market risk is a fall in equity prices.

To mitigate equity risk, the investment policy places limits (by geography, industry and counterparty) on the Society's exposure to equities. The Society's investment managers report regularly to the Board and its Risk Management Committee, on investment performance.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

### Property risk

The Society's only direct exposure to property risk is its head office building however, some of its collective investments may hold property as assets.

### Interest rate risk and asset liability matching

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Society, interest rate risk arises from holding assets and liabilities - actual or notional - with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Society's investments in debt and fixed income securities, which are exposed to changes in interest rates.

The Society holds a diversified range of fixed and variable interest securities of differing durations. The Society matches all of its reserves with fixed and variable interest securities.

### Sensitivity

The impacts on the Society's results from sensitivities on the above market risks are detailed in the table below. For each sensitivity test the impact of a reasonable change in a single factor is shown, with other assumptions left unchanged. The sensitivities selected are those which might reasonably be expected to occur:

- A 10% increase and decrease in the value of equities
- A 25 basis point increase and decrease per annum in the market rates of interest
- A 20% increase and decrease in the value of property

31 December 2020	Equity prices		Fixed interest securities		Property values	
Impact on FFA	+10%	-10%	+25bp	-25bp	+20%	-20%
<b>Total</b>	<b>1,700,085</b>	<b>(1,700,085)</b>	<b>(174,622)</b>	<b>192,377</b>	<b>748,795</b>	<b>(748,795)</b>

31 December 2019	Equity prices		Fixed interest securities		Property values	
Impact on FFA	+10%	-10%	+69bp	-69bp	+20%	-20%
<b>Total</b>	<b>1,643,885</b>	<b>(1,643,885)</b>	<b>(532,229)</b>	<b>587,982</b>	<b>769,161</b>	<b>(769,161)</b>

Market values and rates can move sharply over short periods. The percentage changes shown in this table are designed to show the sensitivity of the Society's Balance Sheet to a range of market movements. However, the exact value of the changes is purely representative and are not necessarily of equal probability of minimum or maximum annual changes.

The above sensitivities have been selected as they are considered to provide an indication of the possible change that could reasonably be expected to occur and the corresponding potential financial impact.

### Currency risk

The Society is exposed to foreign exchange risk within the investment portfolio from its holdings in overseas investment trusts and fixed interest securities. There is no other exposure to currency risk. The investment policy restricts the proportion of the investment portfolio that can be invested overseas in order to mitigate currency risk, but accepts that some risk is justified due to the potential additional returns available and the benefits of diversification.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

### Fair Value Methodology

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. The tables below show the determination of fair value according to a three-level valuation hierarchy. Fair values are generally determined at prices quoted in active markets (level 1). Where such information is not available, the Society would apply valuation techniques to measure such instruments. These valuation techniques make use of market observable data for all significant inputs where possible (level 2). There are no assets or liabilities measured on this basis in either the current or the prior year. Where inputs for the assets or liabilities are not based on observable market data (that is unobservable), fair values are classified at level 3. There are no identified financial liabilities held at fair value within the Society and there are no non-recurring fair value measurements as at 31st December 2020 and 31st December 2019.

#### *Society investments*

Fair value measurement at December 2020	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial Assets				
Listed Investments	38,801	-	-	38,801
Owner occupied property	-	-	3,521	3,521
Strategic Investments (subsidiaries)	-	-	1,907	1,907
<b>Total</b>	<b>38,801</b>	<b>-</b>	<b>5,428</b>	<b>44,229</b>

Fair value measurement at December 2019	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial Assets				
Listed Investments	32,441	-	-	32,441
Owner occupied property	-	-	3,635	3,635
Strategic Investments (subsidiaries)	-	-	1,907	1,907
<b>Total</b>	<b>32,441</b>	<b>-</b>	<b>5,542</b>	<b>37,983</b>

The majority of the Society's investments are valued based on quoted market information or observable market data. The owner occupied property is stated at its revalued amount, as assessed by qualified external valuers in line with the Society's policy. Further details on the valuation of this property can be found in note 10.

Strategic Investments are valued at cost less impairment.

There have been no transfers between levels 1, 2 and 3 during 2020.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

### Counterparty risk

Counterparty risk is the risk of loss due to counterparties failing to meet all or part of their obligations in a timely fashion. Key areas where the Society is exposed to credit risk are:

- Counterparty risk with respect to debt securities and cash deposits

The following table presents the assets of the Society which are subject to credit risk and reconciliation to the balance sheet carrying value of each item:

31 December 2020	Amount not subject to credit risk £	Amounts subject to credit risk £	Balance sheet carrying value £
Shares and other variable yield securities	24,739,710	-	24,739,710
Debt and other fixed income securities	4,258,797	9,924,113	14,182,910
Cash at banks, building societies and in hand	-	1,731,621	1,731,621
<b>Total</b>	<b>28,998,507</b>	<b>11,655,734</b>	<b>40,654,241</b>

31 December 2019	Amount not subject to credit risk £	Amounts subject to credit risk £	Balance sheet carrying value £
Shares and other variable yield securities	17,609,486	-	17,609,486
Debt and other fixed income securities	5,069,948	9,900,842	14,970,790
Cash at banks, building societies and in hand	-	958,444	958,444
<b>Total</b>	<b>22,679,434</b>	<b>10,859,286</b>	<b>33,538,720</b>

The amounts presented above as not being subject to credit risk, represent equity holdings and government gilts or index-linked gilts as well as where debt instruments are fully guaranteed. The Society's exposure to credit risk is summarised as:

Credit rating 31 December 2020	AAA £	AA £	A £	Below A £	Unrated £	Total £
Shares and other variable yield securities	-	-	-	-	-	-
Debt and other fixed income securities	267,566	30,498	1,367,801	8,026,026	232,222	9,924,113
Cash at banks, building societies and in hand	251,085	-	1,480,536	-	-	1,731,621
<b>Total</b>	<b>518,651</b>	<b>30,498</b>	<b>2,848,337</b>	<b>8,026,026</b>	<b>232,222</b>	<b>11,655,734</b>

Credit rating 31 December 2019	AAA £	AA £	A £	Below A £	Unrated £	Total £
Shares and other variable yield securities	-	-	-	-	-	-
Debt and other fixed income securities	263,398	862,122	1,704,263	6,858,494	212,566	9,900,842
Cash at banks, building societies and in hand	-	570,289	388,155	-	-	958,444
<b>Total</b>	<b>263,398</b>	<b>1,432,411</b>	<b>2,092,418</b>	<b>6,858,494</b>	<b>212,566</b>	<b>10,859,286</b>

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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### Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due. It is managed by forecasting cash requirements and by adjusting investment management strategies to meet those requirements. Liquidity risk is mitigated by holding investments which are readily marketable to allow the settlement of liabilities as they fall due.

When the Society's liquidity needs are at their highest, the Executive discusses the Society's cash needs with the Society's investment managers. This takes into account key cash flow indicators, such as how the volume of claims varies over the year and major cash demands arising, such as Insurance Premium Tax bills.

The Society's membership policies are reviewable on an annual basis with variable premiums. All of the Society's other financial liabilities are under one year.

### Operational risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and regulatory risk.

The Society's operational risks are actively monitored by management and captured in the Society's risk register. The Society's risk function conducts monthly risk partner meetings with the management team. The output of these meetings is reported to the Society's executive team and the Risk Management Committee.

### Business risk

Business risk is the risk arising from the implementation of the Society's strategy. It includes risks arising from external factors such as political, economic, sociological and technological changes and competitor actions. Business risks by their nature can directly impact on the viability of an organisation, they can be fundamental changes in products, operating markets or planned level of expenditure, including investment for the future.

The executive team consider all external factors when developing the latest iteration of the strategy. Alongside the annual review of the Society's Business Plan the Board also requires a full risk assessment, with a specific focus on solvency, in the form of an ORSA report. Both the Business Plan and accompanying ORSA Report are presented to the Risk Management Committee for review and then ultimately to the Board for approval.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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### Basis for setting technical provisions

Valuation assumptions are set having regard to the Society's own experience with appropriate margins for prudence. The main elements of the basis are set out below:

Interest Rate (p.a.)	Cash flows are discounted according to the risk free curve provided by EIOPA
Mortality Rates	35% of AM/AFC00 Ultimate (1 January 2020 35% of AM/AFC00 Ultimate)

Mortality - an industry standard mortality table is selected which is most appropriate for the contracts sold by the Society. The mortality rates are adjusted annually to allow for emerging experience.

Morbidity - rates are split by Corporate/Direct/Tailored. Flex members are grouped with Corporate, Connect with Direct, and Essentials/Elements/Agency Bespoke members with Tailored. The rates are reviewed annually to allow for emerging experience.

Persistency - an allowance is made for lapses within the valuation. An analysis of the recent lapse experience of the Society showed that the Society's lapse experience has been stable and therefore only minor adjustments were made to the best estimate lapse assumption rates.

Interest Rates - interest rates are set in accordance to rates published by EIOPA as at 31 December 2020. The one-year spot rate as at 31 December 2020 was -0.110% pa.

Expenses - the Society's projected expenses were analysed between acquisition and maintenance expenses; the maintenance expenses are then assumed to be spread pro rata to gross premium. No allowance has been included for inflation in accordance with Solvency II regulations. An additional reserve has been included to cover future payments of renewal commission on specific Corporate, Tailored, Classic and Agency Bespoke schemes.

Options and Guarantees - for all of the Society's policies the contract terms guarantee 100% of the level of benefits offered in 2020 and future years and premiums are subject to annual review. We have not considered market risk under options and guarantees as the Society's investment policy does not provide for the use of derivative contracts.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

### Analysis of change

Basis	Change £000s	Available Capital £000s
<b>1 January 2020 available capital resources</b>		<b>35,641</b>
In force policy cashflows	2,265	37,906
Unwind of in force BEL	4,019	41,925
Cost of capital (unwind of risk margin)	278	42,204
Investment	1,424	43,627
Change in asset admissibility	(1,692)	41,935
Basis changes:		
- Expenses	(218)	41,717
- Claim rates (incl IBNP)	2,159	43,875
- Renewal commission	4	43,880
- Lapse rates	3	43,883
New business policy cashflows	1,125	45,008
New business BEL	(823)	44,185
New business risk margin	(258)	43,927
Change in current liabilities	230	44,156
Reinsurance	(28)	44,128
<b>31st December 2020 available capital resources</b>		<b>44,128</b>

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 8. UNEARNED PREMIUMS

The movement in the provision for unearned premiums, included within creditors due within 1 year, is as follows:

Group & Society	2020 £	2019 £
Balance at 1 January	483,311	459,903
Movement in unearned premium	(303,744)	23,408
Balance at 31 December	179,567	483,311

## 9. INTANGIBLE FIXED ASSETS

Group	Goodwill £	Intangible assets £	Intangible assets under construction £	Total
<b>Cost</b>				
At 1 January 2020	1,924,177	-	1,027,745	2,951,922
Additions for year	-	-	1,133,749	1,133,749
Transfers	-	1,447,162	(1,447,162)	-
At 31 December 2020	1,924,177	1,447,162	714,332	4,085,671
<b>Amortisation</b>				
At 1 January 2020	487,219	-	-	487,219
Amortisation for year	191,782	103,369	-	295,151
At 31 December 2020	679,001	103,369	-	782,370
<b>Net Book Value</b>				
At 31 December 2019	1,436,958	-	1,027,745	2,464,703
At 31 December 2020	1,245,176	1,343,793	714,332	3,303,301

Society	Goodwill £	Intangible assets £	Intangible assets under construction £	Total
<b>Cost</b>				
At 1 January 2020	-	-	1,027,745	1,027,745
Additions for year	-	-	1,133,749	1,133,749
Transfers	-	1,447,162	(1,447,162)	-
At 31 December 2020	-	1,447,162	714,332	2,161,494
<b>Amortisation</b>				
At 1 January 2020	-	-	-	-
Amortisation for year	-	103,369	-	103,369
At 31 December 2020	-	103,369	-	103,369
<b>Net Book Value</b>				
At 31 December 2019	-	-	1,027,745	1,027,745
At 31 December 2020	-	1,343,793	714,332	2,058,125

Included within Intangible assets is the Breeze development costs £1,343,793 (2019: £Nil)

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 10. TANGIBLE FIXED ASSETS

Group	Long Leasehold £	Improvements to Property £	Fixtures, Fittings, Equipment £	Computer Equipment £	Totals £
<b>Cost or Valuation</b>					
At 1 January 2020	2,667,250	1,218,450	652,170	3,102,417	7,640,287
Additions	-	8,046	1,403	546,223	555,672
Disposals	-	-	-	(10,740)	(10,740)
Revaluation	-	-	-	-	-
At 31 December 2020	2,667,250	1,226,496	653,573	3,637,900	8,185,219
<b>Depreciation</b>					
At 1 January 2020	-	250,376	574,457	1,895,339	2,720,172
Disposals	-	-	-	(10,740)	(10,740)
Charge for year	-	121,919	32,315	249,285	403,519
At 31 December 2020	-	372,295	606,772	2,133,884	3,112,951
<b>Net Book Value</b>					
At 31 December 2019	2,667,250	968,074	77,713	1,207,078	4,920,115
At 31 December 2020	2,667,250	854,201	46,801	1,504,016	5,072,268

Included in cost or valuation of long leasehold are buildings of £2,667,250 (2019 - £2,667,250) which is not depreciated.

Cost or valuation at 31 December 2020 is represented by:

	Long Leasehold £	Improvements to property £	Fixtures, fixtures, equipment £	Computer equipment £	Totals £
Valuation in 2020	2,667,250	-	-	-	2,667,250
Cost	-	1,226,496	653,573	3,637,900	5,517,969
	2,667,250	1,226,496	653,573	3,637,900	8,185,219

Properties were valued on an open market basis as at 31 December 2020, by Legat Owen Ltd, Chartered Surveyors, in accordance with the RICS Valuation (Global Standards 2018) including the International Valuation Standards. The value of the properties occupied by the Society was £2,667,250 (2019 - £2,667,250). If the properties were not measured under the revaluation model, their cost for use under the historic cost model would be £3,662,806.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 10. TANGIBLE FIXED ASSETS (continued)

	Long Leasehold	Improvements to property	Fixtures, fixtures, equipment	Computer equipment	Totals
<b>Society</b>	£	£	£	£	£
<b>Cost or Valuation</b>					
At 1 January 2020	2,667,250	1,218,450	633,423	2,922,595	7,441,718
Additions	-	8,046	1,403	470,376	479,825
Disposals	-	-	-	(10,740)	(10,740)
Revaluation	-	-	-	-	-
At 31 December 2020	2,667,250	1,226,496	634,826	3,382,231	7,910,803
<b>Depreciation</b>					
At 1 January 2020	-	250,376	557,629	1,843,922	2,651,927
Disposals	-	-	-	(10,740)	(10,740)
Charge for year	-	121,919	31,195	183,860	336,974
31 December 2020	-	372,295	588,824	2,017,042	2,978,161
<b>Net Book Value</b>					
At 31 December 2019	2,667,250	968,075	75,794	1,078,672	4,789,790
At 31 December 2020	2,667,250	854,201	46,002	1,365,189	4,932,642

## 11. FIXED ASSET INVESTMENTS

<b>Group</b>	Listed investments
	£
At 1 January 2020	32,440,508
Additions	7,980,021
Disposals	(8,462,877)
Revaluations	(257,352)
At 31 December 2020	31,700,300
Cost or valuation at 31 December 2020 is represented by:	Listed investments
	£
Valuation in 2020	31,700,300

Listed investments, which are all quoted on a recognised stock exchange, are valued at market value.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 11. FIXED ASSET INVESTMENTS (continued)

<b>Society</b>	Shares in group undertakings £	Listed investments £	Totals £
<b>Cost or Valuation</b>			
At 1 January 2020	2,000,948	32,440,508	34,441,456
Additions	-	7,980,021	7,980,021
Disposals	-	(8,462,877)	(8,462,877)
Revaluations	-	(257,352)	(257,352)
At 31 December 2020	2,000,948	31,700,300	33,701,248
<b>Impairment</b>			
At 1 January 2020	94,021	-	94,021
Impairment loss	-	-	-
At 31 December 2020	94,021	-	94,021
<b>Net Book Value</b>			
At 1 January 2020	1,906,927	32,440,508	34,347,435
At 31 December 2020	1,906,927	31,700,300	33,607,227

Listed investments, which are all quoted on a recognised stock exchange, are valued at market value.

The historical cost of listed investments was £25,161,411 (2019: £26,612,672)

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 11. FIXED ASSET INVESTMENTS (continued)

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The Society's investments at the Balance Sheet date in the share capital of companies include the following:

### Subsidiary

#### Prevent Limited

Registered office:	United Kingdom
Nature of business:	Health screening and occupational health services
Class of shares:	Ordinary
% holding	100

#### iHealth System Limited

Registered office:	United Kingdom
Nature of business:	Dormant
Class of shares:	Ordinary
% holding	100

#### Medex Protect Limited

Registered office:	United Kingdom
Nature of business:	Medical excess and shortfall insurance
Class of shares:	Ordinary
% holding	100

#### Health Shield Wellbeing Limited

Registered office:	United Kingdom
Nature of business:	Dormant
Class of shares:	Ordinary
% holding	100

#### Health Shield Insurance Services Limited

Registered office:	United Kingdom
Nature of business:	Dormant
Class of shares:	Ordinary
% holding	100

Health Shield Insurance Services Limited, Health Shield Wellbeing Limited and iHealth System Limited are dormant entities and thus, in accordance with Section 7, Part II of the Friendly Societies (Accounts and Related Provisions) Regulations 1994, consolidated Financial Statements are not presented since the Board of Directors believe that the results of each entity are not material for the purpose of giving a true and fair view of the Society and its subsidiaries as a whole.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Society	
	2020 £	2019 £	2020 £	2019 £
Trade debtors	3,742,572	4,358,446	3,564,275	3,995,737
Amounts owed by group undertakings	-	-	2,311,023	1,912,310
Other debtors	26,217	25,548	26,201	24,630
Prepayments and accrued income	502,395	570,220	497,170	563,891
	<b>4,271,184</b>	<b>4,954,214</b>	<b>6,398,669</b>	<b>6,496,568</b>

## 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Society	
	2020 £	2019 £	2020 £	2019 £
Trade creditors	327,577	751,574	308,408	727,076
Tax	-	888	-	-
Social security and other taxes	1,376,911	1,504,459	1,371,739	1,479,939
Other creditors	6,940	18,912	-	(621)
Accruals and deferred income	1,458,610	973,072	1,284,886	909,817
Defined contribution pension	62,607	77,850	62,607	77,850
Provision for unearned premiums	179,567	483,311	179,567	483,312
Payments in advance	245,794	-	245,794	-
	<b>3,658,006</b>	<b>3,810,066</b>	<b>3,453,001</b>	<b>3,677,372</b>

## 14. FINANCIAL COMMITMENTS

### Operating leases

Minimum lease payments fall due as follows:

Group	Non-cancellable operating Leases	
	2020 £	2019 £
Within one year	28,062	30,486
Between one and five years	297,314	228,486
	<b>325,376</b>	<b>258,972</b>

The operating leases relate to motor vehicles and office equipment.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 14. FINANCIAL COMMITMENTS (continued)

### Other financial commitments

Group	2020 £	2019 £
Within one year	1,689,611	1,422,862
Between one and five years	781,887	1,598,671
	<b>2,471,498</b>	<b>3,021,533</b>

## 15. PROVISIONS FOR LIABILITIES

	Group		Society	
	2020 £	2019 £	2020 £	2019 £
Long-term business provision (LTBP)	1,081,009	2,837,692	1,081,009	2,837,692
	<b>1,081,009</b>	<b>2,837,692</b>	<b>1,081,009</b>	<b>2,837,692</b>
Aggregate amounts	1,081,009	2,837,692	1,081,009	2,837,692

Group	LTBP £
Balance at 1 January 2020	2,837,692
Movement in year	(1,756,683)
Balance at 31 December 2020	<b>1,081,009</b>

Society	LTBP £
Balance at 1 January 2020	2,837,692
Movement in year	(1,756,683)
Balance at 31 December 2020	<b>1,081,009</b>

Details of the Society's approach to setting the long-term business provision are set out in note 7 of these financial statements.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2020

## 16. CONTINGENT LIABILITIES

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The Society has a potential future liability in respect of the purchase of Prevent Limited. The potential future liability is dependent upon attainment of future objectives and therefore cannot be reliably estimated at present. The maximum pay-out value is £250,000 (2019 £320,000) and is subject to meeting specific targets agreed with the Board.

## 17. RELATED PARTY DISCLOSURES

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The Society has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

Transactions between group entities which have been eliminated on consolidation are not disclosed further within the financial statements other than appearing in the debtors and creditors notes (notes 12 and 13 respectively). These balances are unsecured, interest free and repayable upon demand.

<b>Society</b>	2020 £	2019 £
Balances due from wholly owned subsidiaries	2,311,023	1,912,310