2019 Annual Report and Accounts
Health Shield Friendly Society Ltd

Year ended 31 December 2019

Contents

Board of Health Shield Friendly Society Ltd

Chair of Board:
Mr D Maddison

Deputy Chair of Board:
Mr A Phizacklea

Senior Independent Director:
Ms J Hansen

Executive Directors:
Mr C Marsh (Chief Executive)

Mr S Hayhurst (Chief Operating Officer) - Appointed 7 February 2020

Non-Executive Directors:
Mr D Maddison – Independent

Mr A Phizacklea

Ms J Hansen – Independent

Mr C Chappell – Independent – resigned 19 March 2020

Ms C Gannon – Independent – resigned 19 March 2020

Mr S Robinson – Independent – resigned 19 March 2020

Mrs A Alden – Independent

Life President:
Mr J McKinnell MBE

Honorary Medical Consultant:
Dr R Preece, Leighton Hospital, Crewe

Auditors:
BDO LLP

Bankers:
Barclays Bank Plc

Investment Managers:
Investec Wealth and Investment Ltd

Chief Actuary:
Mrs C Spinks

OAC Plc

Board of Health Shield Friendly Society Ltd

David Maddison

Chair

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.
Committee membership – Attendee at all sub-committees.

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.

Alan Phizacklea

Deputy Chair

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 Risk Committee, the Nomination and Remuneration Committee and the Business Delivery and Investment Committee.

Christopher Chappell

Non-Executive Director

Chris was appointed to the Board in June 2015. He is a Fellow of the Institute and Faculty of Actuaries and has over 25 years’ experience in the financial services sector. Chris is the Managing Director of a new insurance venture, which he founded having previously held roles as Chief Actuary and Chief Risk Officer for companies such as Royal Liver, LV= and Pension Insurance Corporation. Chris has a wide range of experience covering finance, risk and actuarial matters.
Committee membership – Chair of the Audit Committee and member of the Risk Committee.

Julie Hansen

Senior Independent Director

Julie was appointed to the Board in June 2015 and is the Senior Independent Director. 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 set up her own management consultancy. Julie was also subsequently a Non-Executive Director at Financial Advice Network UK Limited.
Committee membership – Member of the Risk Committee and the Business Delivery and Investment Committee.

Cecilia Gannon

Non-Executive Director

Cecilia was appointed to the Board in July 2016. She is a qualified solicitor and has worked in the mutual insurance sector for over 25 years. Cecilia is currently General Counsel and Company Secretary for a small mutual insurer based in Cheshire where she holds a number of regulated functions. In addition to her legal expertise, Cecilia has extensive experience in areas such as Corporate Governance, risk management and compliance in the financial services industry.

Committee membership – Chair of the Nomination and Remuneration Committee and member of the Audit Committee.

Scott Robinson

Non-Executive Director

Scott was appointed to the Board in July 2017. Scott is a Fellow of the Institute and Faculty of Actuaries and has worked with Friendly Societies and insurers for over 25 years, both in industry and as a consultant. He is the CEO and founder of an actuarial software business that he started in 2016. He was previously Director of UK Life for the risk, consulting and software business of Towers Watson where he had responsibility for developing strategy, business planning and the ongoing delivery of financial performance. Scott has a wide range of experience covering financial reporting, capital management, actuarial analytics, pricing and mergers and acquisitions.

Committee membership – Chair of the Business Delivery and Investment Committee and member of the Nomination and Remuneration Committee.

Alison Alden

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 (awaiting approval) and member of the Audit Committee.

Chair's Report

Introduction

It is my privilege to present the Annual Report and Accounts for Health Shield Friendly Society this year on behalf of our new Chair, David Maddison, who is taking a period of absence for personal reasons.

I'd also like to take this opportunity to thank our former Chair, Mr David Allen, for his 26 years of service to Health Shield including 18 years as Chair. David was effervescent and added wonderful colour to our formal meetings, more importantly David was a very significant part of Health Shield's growth and success and we wish him a long and happy retirement.

The team at Health Shield has been working very hard and you can expect some new and exciting developments in 2020 but for now, we shall look back on 2019.

Current Market

The health and wellbeing market remains extremely competitive with the cash plan market in particular growing ever more challenging. The global economy remains challenging and in particular the UK continues to face uncertainty around its exit and transition from the EU which added to a difficult year for Health Shield and the UK economy in general.

Despite this, Health Shield was able to increase its income once again and enjoyed a growth of 4% in 2019. Over the last few years, Health Shield's growth has consistently been in excess of the market average which is a fantastic achievement in such challenging conditions.

There is an increasing focus on staff wellbeing from employers and Health Shield is continually looking to extend its reach into this wider wellbeing market. Health Shield's extended offering now includes a significant suite of wellness benefits alongside the core cash plan. This includes elements such as GP anytime, 24/7 counselling, employee assistance programme, on-demand physio and a mental wellbeing app. Through its subsidiaries, Health Shield also offers a range of health screens, occupational health services and PMI excess cover.

New Markets

In line with the vision to be a leader in the health and wellbeing market, the objective remains to reduce the dependence on a single product and diversify into wider product areas. As you know, Health Shield began the transition with the purchase of Prevent and Medex and whilst that has offered some challenges, they are both now integrated and the drive for growth and increased performance is a focus for 2020.

Health Shield simply wants to help people live healthier, happier and more productive lives. Health Shield's desire to bring innovative products to the market that meet the needs of both employees and employers will continue in 2020 with the launch of its new digital health platform, Breeze.

Breeze is a one-stop shop, bringing together Health Shield's physical, emotional and financial health and wellbeing services. The platform facilitates the booking and management of GP appointments, access to health information and assessments, and the ability to receive discounts from big-name brands.

Corporate Governance

Part of the role as Chair is to ensure that the Board consists of people with an appropriate range of skills and experience in order to develop and oversee delivery of Health Shield's strategy. As previously reported, this refreshment has been underway for 3 years now and it remains ongoing to ensure we continue to support the changing business and drive Health Shield forward.

As part of the 2019 rebrand, Health Shield also reviewed its values, which emphasise that its members continue to be at the heart of the business and decision making. The three core values are to remain member focused, always listen and continually improve.

Risk Management

Health Shield's risk management framework adopts a forward looking approach that seeks to anticipate risks, to the furthest extent possible, that might arise as part of its chosen strategy. Health Shield's risk framework identifies, understands and, where possible, mitigates risks. These are, in turn, challenged by the Risk Management Committee with final review at the full Board. These risks and others are discussed in the Strategic Report on pages 8-14.

Staff

It is important to place on record the Board's gratitude to the team, at every level, for continuing to push forward with new developments to benefit the membership. The creativity around new ideas and the delivery of those ideas come from a very loyal and dedicated team and on behalf of the Board, we give you our appreciation and thanks.

Future Developments

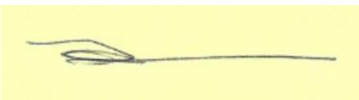
In order to support the expansion into new areas of health and wellbeing, there was a need to improve and modernise the infrastructure of the Society. This included investment into IT and this remains an ongoing process. These developments not only support the services today but are modern and scalable for future plans. This offers the member an enhanced experience and also improves the controls and efficiencies at Health Shield.

Thanks

My role as Acting Chair is undertaken with the support of my colleagues on the Board, the Executive and the whole team of staff at Health Shield and I thank them all for the hard work they constantly deliver to benefit you, our members.

I would like to close by thanking all of Health Shield's members for their ongoing support of Health Shield.

Signed on 9 April 2020



Julie Hansen
Acting Chair

Strategic Report

Health Shield is a leading health cash plan provider and in recent years has expanded its product offering to include health screening, occupational health and private medical excess cover. It sells almost entirely through the corporate channel on a voluntary or company funded basis.

The Society sells the majority of its new business through the intermediated channel. In 2019, the Society set up a new sales team to focus solely on direct to company business as part of a new strategic direction.

Brand repositioning

Health Shield completed a brand repositioning in 2019 to complement its new strategy of being a health and wellbeing provider. A successful launch of the brand externally at exhibitions in London and Manchester in October 2019 was supplemented by the announcement of the launch of Breeze, the Society's new Health & Wellbeing platform.

An initial suite of products on the Breeze platform will be available for companies to purchase in 2020 and this will be the platform for all of the Society's products in due course, providing our members with a market leading experience, informative content on health and wellbeing and access to services.

The Society's overall aim remains the same - a commitment to excellent customer service and operating in the best interests of our members.

Brand repositioning and values

As part of the brand repositioning, the Society reviewed its values. It considered the core values which represent how it treats its membership, and the extended values which represent how it treats its staff, members and all other stakeholders.

Core 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

Extended values

- 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

Health Shield wants to help people lead healthier, happier, more productive lives. It wants to be personable and friendly, traditional and technologically enabled, member focused and inclusive. It will offer products that provide better healthcare all round, with services that keep companies and their staff in the best of health.

Products

The Society is passionate about good healthcare. So, it harnesses the latest technology and its not-for-profit status to provide affordable, flexible, employee benefits that are easy to access.

- Health Cash Plans - A range of plans that reimburse employees the costs of everyday healthcare.
- Breeze. The Digital Health Platform - A way for employees to manage their personal wellbeing on the go.

- Health Screening - A Lifestyle Health Screen and a more thorough, Body System Health Screen. More specialist tests can also be added, covering a further range of conditions.
- Occupational Health - Assessments, surveys and support lines. The Society provides for clients' needs to meet their absence management requirements, health and safety and legal obligations.

Each and every one of the Society's services is designed with one aim in mind: to help businesses and their employees stay in the best of health.

Strategic workstreams

In order to deliver the Society's strategy there are a range of strategic workstreams being implemented, including:

- Sales & retention - The Society has implemented a full review of its sales and retention teams. The new structure positions the Society to continue its growth plans while at the same time providing improved service to new and existing members, clients and brokers.
- Product development – The Society's product development team has been expanded with dedicated product managers. They own each of the Society's products and continually look at ways to improve our offering to members.
- Digital transformation – The Society has, and is continuing to, invest in the latest technology to improve efficiencies in house and the member experience externally. This enables us to provide more engaging content and services to support members in managing their own health.
- Keeping staff engaged – The Society is continuing to invest in its people, to support training needs and in tools to support their health needs, both physical and mental. We recognise that our people are integral to our success – healthy employees create a healthy business.
- Creating a culture that reinforces good governance, control and conduct – it is essential that the Society has a culture which puts good governance, control and conduct at the heart of its business activities so that we not only deliver what our members expect, but in a way that they expect it, without taking undue risk.

Business review

Underlying UK GDP growth slowed materially in 2019 as weaker global growth and Brexit-related uncertainties weighed on spending. This provided a challenging economic environment for the Society to trade in during 2019.

The health and wellbeing market remains extremely competitive, but despite this, the Society was able to grow income by 4%. This was predominantly driven by growth in the cash plan business however, health screening fee income also grew by 6% year-on-year.

The Society paid out £32.3m in member benefits and claims costs during 2019 (2018: £31.7m). This accounts for 78% (2018: 79%) of earned premium income.

Operating expenses as a proportion of total income (excluding investment income) grew slightly to 38% from 36% in 2018. This is as a result of the Society's investment towards its re-platforming and the exciting development of its Breeze proposition. Details regarding some of the strategic workstreams that this investment is contributing towards are shown above. The investment will ensure that the Society is in prime position to take advantage of the opportunities that are presented by the growing health and wellbeing market. It will also enable the Society to maintain its high levels of customer service to its members well into the future.

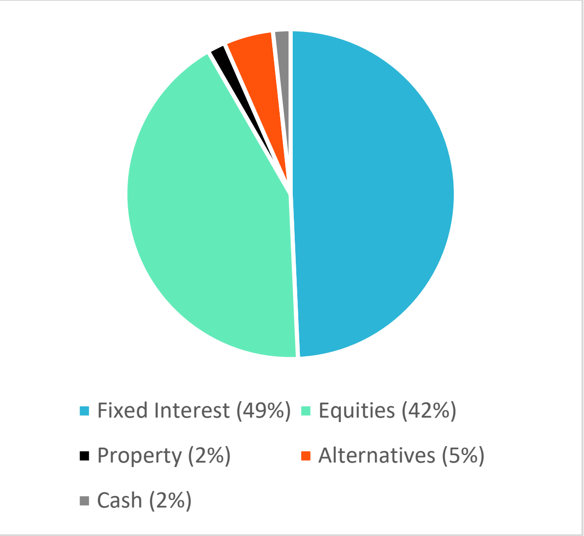
Investment markets bounced back from a poor 2018 which resulted in strong investment returns of £4.2m for the Society (2018: -£1.0M).

The investment performance resulted in the Society's deficit for the year being -£1.0m (2018: -£4.8m). The deficits in recent years have been expected by the Society as a result of its decision to actively invest in its future.

The results for the year are shown in detail in the Income and Expenditure account on page 44.

Investments

The breakdown of the Society's portfolio as at 31 December 2019 is shown in the chart opposite:



2019 saw significant growth across the majority of global equity market indices. UK markets fluctuated throughout the year amid uncertainty surrounding Brexit. However, confidence was high by year end following the general election and reassurance that a Brexit deal of some sorts would go through in 2020. US equity markets were up almost 30% with the potential US-China trade deal heavily dictating the movement.

Fixed interest markets performed well throughout 2019 albeit with a slight dip in the final quarter. Over the year the fixed interest portfolio showed a net return of +5.8% compared to a benchmark return of +4.2%.

Overseas equities generally performed better than their UK counterparts throughout 2019, although UK equities outperformed overseas during the final quarter. The equities portfolio showed a net return for the year of +21.2% compared to a benchmark return of +20.6%.

The alternative assets portfolio is diversified across a number of areas and has performed strongly throughout 2019, generating an annual net return of +11.4% compared to a benchmark of +2.8%.

These combined to give the Society's portfolio an overall annual net performance of +12.4% compared to a benchmark return of +9.9%.

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

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 2019

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

Financials	**2019**	**2018**	**Movement**
Total Income	£42.9m	£41.3m	+4%
Operating costs %	38%	36%	+2%
Balance sheet net assets	£39.4m	£40.2m	-2%
SCR coverage	3.2	3.9	-18%
Membership	**2019**	**2018**	**Movement**
Number of new members administered by the Society	113k	115k	-2%
Total number of active members	345k	340k	+1%
Customer Service	**2019**	**2018**	**Movement**
Claims processed within two working days	90.1%	99.9%	-10%
Customer satisfaction rating regarding claims – Likert scale measurement (out of 5)	4.50	4.55	-1%
Complaints as a % of final membership	0.195%	0.130%	+0.1%

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
- 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)
- 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 57 - 66 includes the Society's policies and processes for managing its capital and financial risks.

As detailed in the Business Review above, the Society has made the decision to embark upon a new strategy which requires an upfront investment resulting in an increased deficit occurring in the near-term. The new strategy will, amongst other things, diversify the Society's product range into new markets and enhance customer experience providing a long-term sustainable future for its members. The Society expects an operating surplus (ie excluding reliance on investment market performance) within three years.

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 the foreseeable future. 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 2024. 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:

- Premium and benefit variances (insurance risk) – 5 sensitivities were run which included changing assumptions for claims inflation, claims ratios and premium targets.
- Expense variances (insurance risk) – 6 scenarios including changing assumptions for administration and acquisition expenses and expense inflation.
- New business variances (insurance risk) – 4 sensitivities including changing assumptions for new business targets and levels of brokered business.
- Lapse rate variances (insurance risk) – 4 sensitivities including changing lapse rates and the loss of a critical broker.
- Economic variances (market risk) – 8 sensitivities including changing equity values, interest rates, portfolio weighting and insurance premium tax increases.
- 7 scenarios were also run, each of which combined a number of aspects from the above sensitivities.

The Society's income and expenditure account has shown deficits in recent years, however prior to this, the Society had built up substantial reserves and the decision was made to utilise a portion of these for the benefit of the Society and its members. This investment will enable the Society to deliver its new strategy which will diversify the product offerings and set the Society up for an even brighter future.

The potential impact of Brexit was also considered by the Board. As a UK focused business, the Society anticipates minimal direct impact from Brexit. The economic uncertainty caused by Brexit has created a more challenging trading environment for the Society and this has been considered within the Society's business plan. The market impact is also deemed to be low risk. The Society is exposed to some currency risk, however even in the case of a 'hard' Brexit, the expected weakening in sterling would likely lead to an initial increase in the value of the Society's equity assets. This is due to the fact that 70-80% of the turnover of companies listed on the FTSE100 is generated outside the UK, and therefore a weakening in sterling has a positive impact on company earnings. The Society's capital position would also allow it to withstand short term fluctuations in market values.

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

The Board of Management has ultimate responsibility for risk management and internal control, including that for 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 two principal risks are 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 in future years. Over the short to medium term the full impact of the UK's exit from the EU will become better understood. The following scenarios have been considered:

- The possibility of recession exists, potentially resulting in a 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. Any IPT rise would increase the cost to customers and risk pushing the premium to a level at which the benefits are perceived as marginal.
- The UK government could respond strongly with funding for the NHS which allows it to modernise and digitise. This could dramatically reduce the demand and perceived value for the cash plan and other health and wellbeing products.

Competition

The Society's broader health and wellbeing strategy brings with it the potential for greater strategic competition:

- In contrast to insurance, fewer barriers to entry exist in the wellbeing space. Regulation and relatively small margins have to a degree protected the insurance 'cash plan' market and hence it is a space largely dominated by not-for-profit businesses. This may not be the case in an evolving and digitised wellbeing market.
- It is highly likely that new entrants will appear and that existing players in the market will develop similar propositions.

The Society additionally considers strategic risks arising from its distribution model, its reliance on developing partnerships, social and environmental changes in society, technical innovation and reputational damage.

In respect of environmental changes, the Society is closely monitoring and seeking to mitigate the financial risks arising from climate change.

Climate change, and the public's response to it, may present a financial risk to the Society. Whilst the financial risks from climate change may crystallise in full over a longer time horizon, they are also beginning to emerge now. These financial risks arise from two primary channels, or 'risk factors', physical and transition risk. After the PRA issued a supervisory statement in April 2019, the Board has considered the financial risks and associated materiality.

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

The potential transition risk has been identified regarding the valuation of equity funds invested into sectors sensitive towards a low carbon economy. The Society is working with its investment managers to ensure the investment portfolio meets the Society's environmental, social and governance (ESG) appetite.

The Society also maintains an environmental policy which aims to reduce its carbon footprint. This incorporates the Society's policies on areas such as sustainability, waste management, recycling and energy management.

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

Further details on the principal 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 Future of the Cash Plan and Health and Wellbeing Market

There continues to be a significant increase in focus on health and wellbeing from corporates, brokers and customers. The Society's key aim is to continue its evolution into a diversified business that is at the forefront of this market and able to take advantage of its growth.

The investment that the Society has undertaken has started this transition and the ongoing investment will ensure the Society is well positioned in this market with a full suite of products and a market leading customer journey.

In 2020, the Society will be launching its new health and wellbeing platform, Breeze, to the market and is expecting a lot of interest.

Health cash plans remain a popular product and this is expected to continue to be the case in the coming year. The recent trend of falling demand in the voluntary sector but increased demand from employers is also expected to continue.

Approved by the Board of Directors and signed on behalf of the Board on 9 April 2020

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.

- 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, is fair, balanced and understandable and provides 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 2019 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 2019 was £9,968 (2018 - £11,592).

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.

Post Balance Sheet Events

Since the balance sheet date, COVID-19 has arisen and is causing disruption to the global economy. There has been a downturn within investment markets, however, the incident is still in the early stages and therefore the full impact is currently unknown. The Society's Own Risk and Solvency Assessment includes a sensitivity for equity markets falling by 25% and under this scenario, the Society's solvency position is not materially affected due to the corresponding reduction in the market risk component of the Society's Solvency Capital Requirement.

The Society is developing contingency plans in relation to other economic impacts that could occur and at the present time is able to continue in operation for the foreseeable future. However, as the full scale of the incident is currently unknown, future scenarios could occur which may impact this assessment. The Society is continuing to closely monitor the situation and act in accordance with the latest government advice.

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 9 April 2020

Courtney Marsh

Courtney Marsh FIA

Chief Executive

Corporate Governance Report

Introduction

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

Purpose and Leadership

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

The 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 receive 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 undertake 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 8 - 14.

Board Composition

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

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	Business Delivery & Investment	Nomination & Remuneration
Non-Executive Directors					
D Allen (retired 1 September 2019)	3 (3)	2 (2)	2 (2)	2 (2)	2 (2)
A Phizacklea	5 (5)	1 (1)	4 (4)	3 (3)	3 (3)
M Carpenter (retired 17 May 2019)	2 (2)	1 (1)	n/a	n/a	1 (1)
C Chappell (resigned 19 March 2020)	3 (5)	3 (3)	4 (4)	1 (1)	n/a
D Maddison	4 (5)	2 (3)	1 (2)	3 (4)	3 (4)
C Gannon (resigned 19 March 2020)	5 (5)	4 (4)	1 (1)	n/a	3 (3)
J Hansen	4 (5)	n/a	3 (3)	4 (4)	1 (1)
S Robinson (resigned 19 March 2020)	5 (5)	1 (1)	n/a	3 (4)	3 (3)
A Alden	4 (5)	4 (4)	4 (4)	n/a	n/a
Executive Directors					
C Marsh	5 (5)	4 (4)	4 (4)	4 (4)	4 (4)
P Wood (resigned 31 May 2019)	1 (2)	n/a	n/a	0 (1)	n/a

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 2019, the Society met the independence criteria with 6 of the 7 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

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.

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 four sub-committees to assist with the consideration of specific key areas:

- Audit Committee
- Risk Management Committee
- Nomination and Remuneration Committee
- Business Delivery and Investment 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.

Following a review of the sub-committee structure, the Board has decided to disband the Business Delivery and Investment Committee from the start of 2020. This is to be replaced by a Strategy and Transformation Committee which will have responsibility for overseeing delivery of change projects. The investment oversight responsibilities of the Business Delivery and Investment Committee will be taken on by the Risk Management Committee.

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

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.

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 27 - 30.

Remuneration

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

Details regarding the Society's remuneration policy are shown on pages 31 - 33.

Stakeholder relationships and engagement

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

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 – from 2020, the Society will be distributing a quarterly newsletter to delegates to keep them informed of developments within the Society
- Meeting with the Board – from 2020, 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 asks questions and provide feedback

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

During 2019, an updated people strategy has been implemented within the Society in order 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:

Mr D Allen (Chair – retired 1 September 2019)
Mr D Maddison (Chair - from 1 September 2019)
Mr A Phizacklea (Deputy Chair)
Ms J Hansen (Senior Independent Director)
Mr M Carpenter (Non-Executive Director – retired 17 May 2019)
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 C Marsh (CEO)
Mr P Wood (Sales Director – resigned 31 May 2019)

More details on each of the Board Members can be found on pages 3 - 5.
The Society is currently actively seeking to recruit new Non-Executive Directors with the requisite skills and experience to complement the current Board members.

Audit Committee

Composition to 17 May 2019:

Members:

Mr A Phizacklea (Chair)
Ms C Gannon (Non-Executive Director)
Mrs A Alden (Non-Executive Director)
Mr M Carpenter (Non-Executive Director – retired 17 May 2019)

Attendees:

Mr D Allen (Chair of the Board – retired 1 September 2019)
Mr C Marsh (CEO)
Mr L Foster (Director of Risk and Compliance)
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 17 May 2019:

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 D Allen (Chair of the Board – retired 1 September 2019)

Mr C Marsh (CEO)
Mr L Foster (Director of Risk and Compliance)
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 and may act independently of the Executive where it considers necessary.

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.
- 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.
- Review the annual operating budget and annual capital budget and advise the Board on whether they are a robust basis for financial control and are 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 2019, 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	All property owned by the Society is long leasehold and is included under 'Land and Buildings' within Tangible Assets on the balance sheet at open market value in accordance with the Friendly Societies Act 1992. Under FRS102 Section 17, the Society has elected to adopt the fair value approach, with changes in the fair value of the occupied property recognised in other comprehensive income, with a corresponding revaluation reserve held. 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.

During 2019, the Society undertook a full tender process for the external audit services, in accordance with the ten-year rule. As a result of this, BDO LLP were appointed as the Society's external auditors and consequently Deloitte LLP resigned their position.

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

Nomination and Remuneration Committee:

Composition to 17 May 2019:

Members:

Mr M Carpenter (Chair – retired 17 May 2019)
Ms J Hansen (Non-Executive Director)
Mr D Maddison (Non-Executive Director)

Attendees:

Mr D Allen (Chair of the Board – retired 1 September 2019)
Mr C Marsh (CEO)
Mr N Foskett (Chief Financial Officer)

Composition from 17 May 2019:

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 D Allen (Chairman of the Board – retired 1 September 2019)
Mr C Marsh (CEO)

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.

Business Delivery and Investment Committee:

Composition to 17 May 2019:

Members:

Mr D Maddison (Chair)
Mr C Chappell (Non-Executive Director)
Ms J Hansen (Non-Executive Director)

Attendees:

Mr D Allen (Chair of the Board – retired 1 September 2019)
Mr C Marsh (CEO)
Mr P Wood (Sales Director – resigned 31 May 2019)
Mr L Foster (Director of Risk and Compliance)
Mr N Foskett (Chief Financial Officer)
Mr S Hayhurst (Director of IT, Operations and Marketing)

Composition from 17 May 2019:

Members:

Mr S Robinson (Chair – resigned 19 March 2020)
Mr A Phizacklea (Non-Executive Director)
Ms J Hansen (Non-Executive Director)
Mr D Allen (Chair of the Board – retired 1 September 2019)

Attendees:

Mr C Marsh (CEO)
Mr P Wood (Sales Director – resigned 31 May 2019)
Mr L Foster (Director of Risk and Compliance)
Mr N Foskett (Chief Financial Officer)
Mr S Hayhurst (Director of IT, Operations and Marketing)
Mr J Dunks (Director of Sales – from 1 June 2019)

Role

The role of the Business Delivery and Investment Committee is to assist the Board in fulfilling its oversight responsibilities for sales and the subsequent customer experience across the Society, including its policy aims for retention and business. In addition, it will oversee the Society's investment processes, within policies set by the Board, including the appointment of externa advice and the management of the contractual relationship with any appointed external advisers.

Duties

The key duties of the Business Delivery and Investment Committee are to:

- Oversee the process and controls for sales and the customer journey including the quality of information and services provided.
- Receive and review reports from the Executive team on the business environment within which the Society operates, including trends, risks, opportunities, and potential changes in direction. Make recommendations to the Board about emerging developments and market positioning.
- Review the continuing relevance of the Society's vision, mission, values and objectives, as they impact the customer experience and recommend to the Board any proposed changes.

- Review progress against the sales and business delivery elements of the plan and annual budget and provide advice to the Audit Committee to assist with its responsibility for monitoring the overall financial performance of the Society. Identify key metrics against which to measure the success of the Society's current and future business.
- Monitor business and product profitability, market share, trends and performance against targets and recommend action, as necessary, where these move out of line with agreed business strategy, plans and budgets.
- Receive and consider reports on the number and nature of complaints made and any trends emerging and determine action as necessary.
- Develop and recommend to the Board a policy for the pricing and underwriting of new business and products which will ensure the long-term financial health of the Society.
- Oversee the development and implementation of the Society's IT strategy ensuring that it has sufficient resource in terms of investment in people, infrastructure and development capacity. Make recommendations to the Board as necessary.
- Review and approve the process for placing reinsurance ensuring that an appropriate internal control framework is in operation. Receive and consider reports on pricing and utilisation of reinsurance from the Chief Actuary and make necessary recommendations for action arising therefrom.
- Agree and oversee the effective operation of a process for review and monitoring of the Society's investment of its assets. This includes the appointment of external advisers. Ensure compliance with all applicable legislation and regulatory guidance, in regard to all investment matters.
- Review and recommend to the Board the Society's Investment Policy.
- Consider candidates for appointment as external Investment Advisers and, following a competitive tender process, recommend to the Board the selected candidates. Set out and agree the engagement terms and conditions, including the Advisers remuneration.
- Undertake a further review of this appointment after 3 years or over a term agreed with the Board and go out to competitive tender, as necessary. Take responsibility for the termination of the Investment Advisors contract, as the need arises.
- Receive and consider reports from the appointed external Investment Advisers, both independently in Committee and face to face at agreed intervals and monitor the performance of the investment portfolio, against targets and benchmarks, set by the Board. Take due account of the Society's solvency and capital management requirements and the accounting policies and practices under which the Society operates.
- Continuously review the performance of the outsourced investment management function and recommend action as necessary.

Risk Management Committee:

Composition to 17 May 2019:

Members:

Mr C Chappell (Chair)
Ms C Gannon (Non-Executive Director)
Mr A Phizacklea (Non-Executive Director)
Mrs A Alden (Non-Executive Director)

Attendees:

Mr D Allen (Chair of the Board – retired 1 September 2019)
Mr C Marsh (CEO)
Mr L Foster (Director of Risk and Compliance)
Mr N Foskett (Chief Financial Officer)
Miss S Dixon (Internal Audit Manager)

Composition from 17 May 2019:

Members:

Mrs A Alden (Acting Chair from November 2019)
Mr A Phizacklea (Non-Executive Director)
Mr C Chappell (Non-Executive Director – resigned 19 March 2020)
Ms J Hansen (Non-Executive Director)

Attendees:

Mr D Allen (Chair of the Board – retired 1 September 2019)
Mr C Marsh (CEO)
Mr L Foster (Director of Risk and Compliance)
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.

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 strategy, appetite and tolerance (including measurement), 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 Director of Compliance and Risk 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.
- 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 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 in 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 provide actuarial expertise and advice, including setting the approach to and calculating the Society's technical provisions and deliver 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. They focus their audit work on areas of significant risk and provide 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 with 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

- 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 continuously identify, measure, monitor, manage and report on risk at an individual and at an aggregated level;
- 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 provides advice on compliance with legal and regulatory obligations, including the training and monitoring appropriate. The compliance function will also provide operational areas and the risk management function with support on legal requirements in relation to products and services or when the company intends to enter a new market;
- The Compliance function submits an annual monitoring plan 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 from 1 August 2019 (previously Oliver Wyman)

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

- Coordinate the calculation of the technical provisions;
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the Board of the reliability and adequacy of the calculation of technical provisions;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements;
- Contribute to the effective implementation of the risk management system.

Directors’ Remuneration Report

Introduction

This report sets out our Directors' Remuneration Policy for 2019.

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.

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 basic 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 advisers 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.

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 & Fees	Performance Related Pay	Other Benefits	Total 2019	Total 2018
	£	£	£	£	£
Chair					
D Allen (retired 1 September 2019)	31,387	-	-	31,387	53,136
D Maddison (appointed Chair 1 September 2019)	28,459	-	-	28,459	25,318
Executive Directors					
J Burton					
(deceased 6 April 2018)	-	-	-	-	400,013
C Marsh	156,262	19,491	36,560	212,313	398,082
P Wood (resigned 31 May 2019)	238,232	17,719	12,212	268,163	390,136
Non-Executive Directors					
C Chappell (resigned 19 March 2020)	21,956	-	-	21,956	23,878
M Carpenter (retired 17 May 2019)	10,514	-	-	10,514	23,118
C Gannon (resigned 19 March 2020)	23,801	-	-	23,801	23,878
J Hansen	23,073	-	-	23,073	26,998
A Phizacklea	26,703	-	-	26,703	28,798
B Stringer					
(retired 18 May 2018)	-	-	-	-	14,887
S Robinson (resigned 19 March 2020)	21,963	-	-	21,963	22,098
A Alden					
(appointed 1 November 2018)	22,323	-	-	22,323	4,465
Total	£604,673	£37,210	£48,772	£690,655	£1,434,805

Statement of Chief Actuary

Following a full tender process, the Society changed its Chief Actuary during the year from the incumbent Mr Simon Grout, of Oliver Wyman, to Mrs Cara Spinks, of OAC Plc (OAC).

The Society has requested Mr Grout and 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.

Mr Grout has confirmed that neither he, nor his family, nor any of his colleagues were members of the Society, nor have they any pecuniary interests in the Society other than the fees paid to Oliver Wyman.

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 Oliver Wyman for professional services from the period 1 January 2019 to 31 July 2019 amounted to £118,973 (2018 - £171,231).

The total fees payable to OAC Plc for professional services from the period 1 August 2019 to 31 December 2019 amounted to £44,103 (2018 - nil).

Independent Auditor's Report to the members of Health Shield Friendly Society

Opinion

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 2019 which comprise the Consolidated Income and Expenditure Account, the Society Income and Expenditure Account, the Consolidated 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 *and Republic of Ireland* and Financial Reporting Standard 103 *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice)

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2019 and of the Group's and Society's deficit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs

(UK)) and applicable law. Our responsibilities under those standards are further described in the

Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 13 and 14 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 14 in the annual report that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 51 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements and the directors' identification of any material uncertainties to the Group's and

Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

- the directors' statement relating to going concern made in accordance with the AFM Corporate Governance Code (January 2019) is materially consistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 12-13 in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of these matters.

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.

Determination of actuarial assumptions for valuation of the Long Term Business Provision - £2,838k (2018: £3,411k)	
The risk identified	**How our audit responded to the risk**
Refer to the Long Term Business Provision accounting policy and further information given in note 16. 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. 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.	In assessing the valuation of the insurance Long Term Business Provisions, we performed the following procedures: • We engaged an independent 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. • When selecting our independent auditor's expert we evaluated their independence, objectivity, and competence to provide the required audit support. • 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. • With assistance from our independent expert we reviewed and assessed the assumptions using in the calculation of the Long Term Business Provision provision to ensure these are reasonable and in line with acceptable parameters. • We gained comfort over the data used by the Society's Actuarial Function Holder in their calculation of the Long Term Business Provision provisions by matching the data inputs to the Society's accounting records which we have tested on a substantive basis as part of our audit.

Valuation of owner occupied property (disclosed in tangible fixed assets) - £2,667k (2018: £2,477)	
The risk identified	**How our audit responded to the risk**
Refer to the Owner Occupied Property accounting policy and further information given in note 11. 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. Management engage independent property experts to assist in reviewing and selecting these assumptions. Because of the extent of the judgement involved in the determination of the valuation assumption this issue represents a key audit matter.	Our audit work in respect of the valuation of investment property included: • 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. • Engaging directly with management's expert to discuss the assumptions used in the preparation of their valuation. • 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 and the leases. 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. .

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:

Overall financial statements materiality	£820,000
Basis of materiality	2.1% of the fund for future appropriation (“FFA”). 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 friendly society. This is our first period of appointment. The previous auditor used a materiality figure of £802,000 which was approximately 1.8% of Gross Written Premiums.
Performance materiality	Performance materiality £533,000 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 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.
Threshold for reporting misstatements to the Audit Committee	£24,000 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.
Specific Materiality	To ensure that adequate audit consideration is given to items that impact the income statement alone (such as premiums, claims paid and operating expenses) we will apply a specific materiality when testing these items. Specific materiality was set at £607,000 (based on 1.5% of net earned premiums).

An overview of the scope of our audit

The Society is principally involved in providing health cash plan insurance policies in the UK. 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 above, 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.

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.

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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 15 the statement given by the directors that they consider the annual report and the financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the society's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on pages 21-23 the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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 16, 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. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, 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 1 year, covering the year ending 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the Society in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

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

9 April 2020

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 2019

	Note	2019		2018	
		£	£	£	£
Earned premiums					
Gross written premiums		41,821,877		40,121,094	
Outward reinsurance premiums		(30,450)		(30,450)	
Premiums written net of reinsurance		41,791,427		40,090,644	
Discounts allowed		(182,022)		(163,278)	
Change in provision for unearned premiums	8	(23,408)		84,469	
Net earned premiums	3		41,585,997		40,011,835
Investment income					
Bank interest		967		822	
Income from listed investments	11	995,812		1,037,538	
Gain from realisation of Investments	11	938,556		1,009,203	
			1,935,335		2,047,563
Unrealised loss/gain on investments	11		2,260,360		(2,998,968)
Other income					
Commission income	3	562,927		619,943	
Fee income	3	728,544		685,414	
			1,291,471		1,305,357
			47,073,163		**40,365,787**
Claims incurred					
Member benefits and claim costs			(32,345,545)		(31,745,463)
Change in other technical provisions					
Long-term business provision	15		572,805		1,338,202
Net operating expenses					
Operating expenses	6		(16,254,958)		(14,752,556)
			(48,027,698)		**(45,159,817)**
Tax expense	5		(24,520)		(33,291)
Deficit for the year			**(979,055)**		**(4,827,321)**

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 2019

	Note	2019		2018	
		£	£	£	£
Earned premiums					
Gross written premiums		41,821,877		40,121,094	
Outward reinsurance premiums		(30,450)		(30,450)	
Premiums written net of reinsurance		41,791,427		40,090,644	
Discounts allowed		(182,022)		(163,278)	
Change in provision for unearned premiums	**8**	(23,408)		84,469	
Net earned premiums	3		41,585,997		40,011,835
Investment income					
Bank interest		189		243	
Income from listed investments	11	995,812		1,037,538	
Gain from realisation of Investments	11	938,556		1,009,203	
			1,934,557		2,046,984
Unrealised loss/gain on investments	11		2,260,360		(2,998,968)
Other income					
Commission income	3	-		-	
Fee income	3	-		-	
			-		-
			45,780,914		**39,059,851**
Claims incurred					
Member benefits and claim costs			(32,345,545)		(31,745,463)
Change in other technical provisions					
Long-term business provision	15		572,805		1,338,202
Net operating expenses					
Operating expenses	6		(14,356,764)		(13,018,724)
			(46,129,504)		**(43,425,985)**
Tax expense	5		-		-
Deficit for the year			**(348,590)**		**(4,366,134)**

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 2019

	2019	2018
	£	£
Loss for the Year	(979,055)	(4,827,321)
Other comprehensive income		
Revaluation of occupied land and buildings	180,000	52,250
Total comprehensive loss for the year	(799,055)	(4,775,071)
Total comprehensive loss attributable to:		
Owners of the parent	(799,055)	(4,775,071)

Consolidated Balance Sheet

31 December 2019

	Note	2019 £	2018 £
Fixed Assets			
Intangible assets	9	2,464,703	1,087,206
Tangible assets	10	4,920,115	3,818,449
Investments	11	32,440,508	35,163,542
		39,825,326	40,069,197
Current Assets			
Stocks		19,842	1,528
Debtors	12	4,954,214	5,468,152
Cash at bank		1,292,956	1,392,484
		6,267,012	6,862,164
Creditors			
Amounts falling due within one year	13	(3,810,066)	(3,277,229)
Net Current Assets		2,456,946	3,584,935
Total Assets less Current Liabilities		42,282,272	43,654,132
Provisions for Liabilities	15	(2,837,692)	(3,410,497)
Net Assets		39,444,580	40,243,635
Reserves			
Fund for future appropriations		39,212,330	40,191,385
Revaluation reserve		232,250	52,250
		39,444,580	40,243,635

The financial statements of Health Shield Friendly Society (registered number 50F) were authorised for issue by the Board on 9 April 2020 and signed on its behalf by:

Julie Hansen – Member of the Board

Alan Phizacklea – Member of the Board

Courtney Marsh – Chief Executive

Society Balance Sheet

31 December 2019

	Note	2019 £	2018 £
Fixed Assets			
Intangible assets	9	1,027,745	-
Tangible assets	10	4,789,790	3,782,621
Investments	11	34,347,435	36,546,676
		40,164,970	40,329,297
Current Assets			
Debtors	12	6,496,568	6,364,010
Cash at bank		958,444	1,156,544
		7,455,012	7,520,554
Creditors			
Amounts falling due within one year	13	(3,677,372)	(3,166,087)
Net Current Assets		3,777,640	4,354,467
Total Assets less Current Liabilities		43,942,610	44,683,764
Provisions for Liabilities	15	(2,837,692)	(3,410,497)
Net Assets		41,104,918	41,273,267
Reserves			
Fund for future appropriations		40,872,668	41,221,017
Revaluation reserve		232,250	52,250
		41,104,918	41,273,267
Society's deficit for the financial year (entity only)		(348,349)	(4,366,134)

The financial statements of Health Shield Friendly Society (registered number 50F) were authorised for issue by the Board on 9 April 2020 and signed on its behalf by:

Julie Hansen – Member of the Board

Alan Phizacklea – Member of the Board

Courtney Marsh – Chief Executive

Consolidated Statement of Changes in Equity

for the Year Ended 31 December 2019

	Revaluation reserve	Fund for future appropriations	Total equity
	£	£	£
Balance at 1 January 2018	-	45,018,706	45,018,706
Changes in equity			
Deficit for the year	-	(4,827,321)	(4,827,321)
Other comprehensive income	52,250	-	52,250
	52,250	(4,827,321)	4,775,071
Balance at 31 December 2018	52,250	40,191,385	40,243,635
Changes in equity			
Deficit for the year	-	(979,055)	(979,055)
Other comprehensive income	180,000	-	180,000
Total comprehensive income	180,000	(979,055)	(799,055)
Balance at 31 December 2019	232,250	39,212,330	39,444,580

Society Statement of Changes in Equity

for the Year Ended 31 December 2019

	Revaluation reserve	Fund for future appropriations	Total equity
	£	£	£
Balance at 1 January 2018	-	45,587,151	45,587,151
Changes in equity			
Deficit for the year	-	(4,366,134)	(4,366,134)
Other comprehensive income	52,250	-	52,250
	52,250	(4,366,134)	(4,313,884)
Balance at 31 December 2018	52,250	41,221,017	41,273,267
Changes in equity			
Deficit for the year	-	(348,349)	(348,349)
Other comprehensive income	180,000	-	180,000
Total comprehensive income	180,000	(348,349)	(168,349)
Balance at 31 December 2019	232,250	40,872,668	41,104,918

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

1. ACCOUNTING POLICIES

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 address of the registered office is given on page 3. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 8 - 14.

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 2019 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 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. Brexit has also been considered within the preparation of the financial statements and is determined not to have any material impact on the financial statements as a whole.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

1. **ACCOUNTING POLICIES (continued)**

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.

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

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.

1. ACCOUNTING POLICIES (continued)

Investments

In the company'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 Company 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 Company would receive for the asset if it were to be sold at the balance sheet date.

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.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

1. **ACCOUNTING POLICIES (continued)**

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.

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 and cash equivalents include cash in hand and deposits held at call.

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.

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 "unhedgeable 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.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

1. **ACCOUNTING POLICIES (continued)**

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**

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.

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.

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 £2.4 million. The impact of a 10% increase/decrease in expense rates would be to increase/decrease the LTBP by £0.6 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 2019

3. INCOME

	2019 £	2018 £
An analysis of the Group's income by class and category is as follows:		
Net earned premiums from cash plan business	41,585,997	40,011,835
Commission income from insurance mediation	562,927	619,943
Fee income from health screening and occupational health programmes	728,544	685,414
	42,877,468	41,317,192

All income relates to business written in the United Kingdom.

4. EMPLOYEES AND DIRECTORS

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
(a) Employment costs, including Directors, during the year:				
Wages and salaries	6,596,564	5,803,818	5,909,682	5,158,495
Social security costs	683,244	675,750	614,926	609,295
Other pension costs - note 4 (d)	414,229	463,136	379,161	444,897
	7,691,037	6,942,704	6,903,769	6,212,687
(b) Average number of employees during the year (including Executive & Non-Executive Directors):				
Administration	127	116	109	102
Claims	21	23	21	23
Acquisition	41	40	41	40
Total	189	179	171	165

(c) Aggregate emoluments of Key Management Personnel:	2019 £	2018 £
Salaries and other emoluments	1,121,676	1,787,614
Pension contributions	80,641	60,056
Compensation for loss of office	-	-
	1,202,317	1,847,670
	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	268,163	400,013

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

4. EMPLOYEES AND DIRECTORS (continued)

(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 2019 was £77,850 (2018 - £51,292).

5. TAXATION

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

	2019	2018
Current tax:	£	£
UK corporation tax	24,520	33,291
Tax on loss	24,520	33,291

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:

	2019	2018
	£	£
Loss before tax	(954,536)	(4,794,030)
Loss multiplied by the standard rate of corporation tax in the UK of 19%	(181,362)	(910,866)
Effects of:		
Income not taxable	99,077	838,270
Increase in tax losses carried forward	106,805	103,303
Adjustments to the tax charge in respect of previous period	-	2,583
	24,520	33,291

'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 2019

6. NET OPERATING EXPENSES

	2019	2018
	£	£
Acquisition costs	5,131,538	4,507,231
Administrative costs	11,014,824	10,120,629
Investment management expenses	108,596	124,696
	16,254,958	14,752,556

Net operating expenses includes the following:

Fees payable to the Society's Auditor for audit assurance services	92,400	87,440
Fees payable to the Society's Auditor for other services	-	-
Hire of equipment - operating leases	222,473	277,083
Commission	2,631,571	3,020,364
Actuary function holder's remuneration	163,076	171,231
Loss on disposal of fixed assets	39,143	1,971
Amortisation of goodwill	184,574	130,446
Depreciation of owned fixed assets	448,465	396,099

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.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

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

	31 Dec 2019 £	31 Dec 2018 £
Life business UK non-participating		
Fund for Future Appropriations	39,212,330	40,191,385
Regulatory solvency adjustments	(3,571,430)	(1,035,045)
Total available capital resources (unaudited)	35,640,900	39,156,340

Total available capital resources are 3.2 times (2018: 3.9 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.

Further detail on corporate governance structure and the impact of current market conditions are provided in the corporate governance statement.

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.

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
- Liquidity risk
- Counterparty risk
- Operational risk
- Strategic 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.

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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 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. This is aligned with the Society's vision: to improve the health and wellbeing of as many people as possible, by developing its products and embracing new opportunities.

The primary responsibility for managing insurance risk falls to the Business Delivery and Investment 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:

Variable	Change in Variable	Change in LTBP £000s	Change in Available Capital £000s (unaudited)
Morbidity	+10%	2,433	(2,433)
Morbidity	-10%	(2,427)	2,427
Interest	+1% per annum	(12)	(771)
Interest	-1% per annum	13	852
Expenses	+10%	553	(553)
Expenses	-10%	(553)	553
Contract Boundaries	+1 month	(248)	248
Contract Boundaries	-1 month	63	(63)
Mortality	+10%	(6)	6
Mortality	-10%	7	(7)

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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 Business Delivery and Investment 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 investor's performance reports. 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 Business Delivery and Investment Committee, on investment performance.

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.

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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 variables are:

- A 10% increase and decrease in the value of equities
- A 69 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 2019	Equity prices		Fixed interest securities		Property values	
Impact on FFA	+10%	-10%	+69bp	-69bp	+20%	-20%
Total	**1,643,885**	**(1,643,885)**	**(532,229)**	**587,982**	**769,161**	**(769,161)**

31 December 2018	Equity prices		Fixed interest securities		Property values	
Impact on FFA	+10%	-10%	+69bp	-69bp	+20%	-20%
Total	**1,649,413**	**(1,649,413)**	**(548,400)**	**591,193**	**588,248**	**(588,248)**

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.

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 2019 and 31st December 2018.

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Society investments

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
Total	**32,441**	**-**	**5,542**	**37,983**

Fair value measurement at December 2018	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial Assets				
Listed Investments	35,164	-	-	35,164
Owner occupied property	-	-	2,941	2,941
Strategic Investments (subsidiaries)	-	-	1,383	1,383
Total	**35,164**	**-**	**4,324**	**39,488**

The majority of the Society's investments are valued based on quoted market information or observable market data. Owner occupied properties are stated at their revalued amount, as assessed by qualified external valuers in line with the Society's policy. Further details on the valuation of these properties 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 2019.

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:

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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
Total	**22,679,434**	**10,859,286**	**33,538,720**

31 December 2018	Amount not subject to credit risk £	Amounts subject to credit risk £	Balance Sheet carrying value £
Shares and other variable yield securities	18,737,898	800,620	19,538,518
Debt and other fixed income securities	5,700,090	10,121,147	15,821,237
Cash at banks, building societies and in hand	-	1,156,544	1,156,544
Total	**24,437,988**	**12,078,311**	**36,516,299**

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 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
Total	**263,398**	**1,432,411**	**2,092,418**	**6,858,494**	**212,566**	**10,859,286**

Credit rating 31 December 2018	AAA £	AA £	A £	Below A £	Unrated £	Total £
Shares and other variable yield securities	-	-	-	800,620	-	800,620
Debt and other fixed income securities	-	1,405,024	2,815,546	5,900,577	-	10,121,147
Cash at banks, building societies and in hand	-	-	700,608	-	455,936	1,156,544
Total	**-**	**1,405,024**	**3,516,154**	**6,701,197**	**455,936**	**12,078,311**

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 sufficient investments which are readily marketable in sufficiently short time frames to allow the settlement of liabilities as they fall due.

For Health Shield, sufficient cash is retained in the Society's current account to meet most day-to-day running expenses and claims. Notwithstanding this, however, the investment portfolio is maintained in sufficiently liquid form to meet all operating requirements that may be reasonably anticipated. Furthermore, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets.

When the Society's liquidity needs are at their highest, the Executive will discuss the Society's cash needs with the Society's investment managers. This will take 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 plans are reviewable on an annual basis with variable premiums. All 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 conduct monthly risk partner meetings with the Management Team. The output of these meetings is reported to the Society's Executive and the Risk Management Committee.

Strategic risk

Strategic 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. Strategic 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 require 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.

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 2019 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, age, sex and level of benefit. 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.

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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 2019. The one-year spot rate as at 31 December 2019 was 0.716% 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, Essentials, Elements and Agency Bespoke schemes.

Options & 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 & Guarantees as the Society's investment policy does not provide for the use of derivative contracts.

Analysis of change

Basis	Change £000s	Available Capital £000s
1 January 2019 available capital resources		**39,156**
In force policy cashflows	(2,618)	36,539
Unwind of in force BEL	6,866	43,404
Cost of capital (unwind of risk margin)	191	43,596
Investment	4,086	47,682
Change in asset admissibility	(3,358)	44,324
Basis changes:		
- Expenses	217	44,541
- Claim rates (incl IBNP)	561	45,102
- Renewal commission	177	45,279
- Contract boundaries	(30)	45,249
New business policy cashflows	(6,233)	39,016
New business BEL	(2,560)	36,456
New business risk margin	(278)	36,179
Change in current liabilities	(511)	35,667
Reinsurance	(27)	35,641
31st December 2019 available capital resources		**35,641**

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

8. UNEARNED PREMIUMS

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

Group & Company	2019 £	2018 £
Balance at 1 January	459,903	544,372
Movement in unearned premium	23,408	(84,469)
Balance at 31 December	483,311	459,903

9. INTANGIBLE FIXED ASSETS

Group	Goodwill £	Other intangible assets £	Total
Cost			
At 1 January 2019	1,389,851	-	1,389,851
Additions for year	534,326	1,027,745	1,562,071
At 31 December 2019	1,924,177	1,027,745	2,951,922
Amortisation			
At 1 January 2019	302,645	-	302,645
Amortisation for year	184,574	-	184,574
At 31 December 2019	487,219	-	487,219
Net Book Value			
At 31 December 2018	1,087,206	-	1,087,206
At 31 December 2019	1,436,958	1,027,745	2,464,703

Company	Goodwill £	Other intangible assets £	Total
Cost			
At 1 January 2019	-	-	-
Additions for year	-	1,027,745	1,027,745
At 31 December 2019	-	1,027,745	1,027,745
Amortisation			
At 1 January 2019	-	-	-
Amortisation for year	-	-	-
At 31 December 2019	-	-	-
Net Book Value			
At 31 December 2018	-	-	-
At 31 December 2019	-	1,027,745	1,027,745

Additions in goodwill reflect the deferred considerations paid in 2019 relating to the acquisition of Medex Protect Ltd.

Included in the cost of other intangible assets is software under construction of £1,027,745 (2018 - £0) which is not depreciated.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

10. TANGIBLE FIXED ASSETS

Group	Long Leasehold £	Improvements to Property £	Fixtures, Fittings, Equipment £	Computer Equipment £	Totals £
Cost or Valuation					
At 1 January 2019	2,477,250	683,468	1,000,415	2,457,071	6,618,204
Additions	10,000	534,982	19,132	848,584	1,412,698
Disposals	-	-	(367,377)	(203,238)	(570,615)
Revaluation	180,000	-	-	-	180,000
At 31 December 2019	2,667,250	1,218,450	652,170	3,102,417	7,640,287
Depreciation					
At 1 January 2019	-	224,756	844,153	1,730,846	2,799,755
Disposals	-	-	(327,092)	(200,956)	(528,048)
Charge for year		25,620	57,396	365,449	448,465
At 31 December 2019	-	250,376	574,457	1,895,339	2,720,172
Net Book Value					
At 31 December 2018	2,477,250	458,712	156,262	726,225	3,818,449
At 31 December 2019	2,667,250	968,074	77,713	1,207,078	4,920,115

Included in cost or valuation of long leasehold are buildings of £2,667,250 (2018 - £2,477,250) which is not depreciated.

Cost or valuation at 31 December 2019 is represented by:

	Long Leasehold £	Improvements to property £	Fixtures, fixtures, equipment £	Computer equipment £	Totals £
Valuation in 2019	2,667,250	-	-	-	2,667,250
Cost	-	1,218,450	652,170	3,102,417	4,973,037
	2,667,250	1,218,450	652,170	3,102,417	7,640,287

Properties were valued on an open market basis as at 31 December 2019, 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 (2018 - £2,477,250). 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 2019

10. TANGIBLE FIXED ASSETS (continued)

Company	Long Leasehold £	Improvements to property £	Fixtures, fixtures, equipment £	Computer equipment £	Totals £
Cost or Valuation					
At 1 January 2019	2,477,250	683,468	982,467	2,400,214	6,543,399
Additions	10,000	534,983	18,333	721,247	1,284,562
Disposals	-	-	(367,377)	(198,866)	(566,244)
Revaluation	180,000	-	-	-	180,000
At 31 December 2019	2,667,250	1,218,450	633,423	2,922,595	7,441,718
Depreciation					
At 1 January 2019	-	224,756	828,445	1,707,577	2,760,778
Disposals	-	-	(327,092)	(198,027)	(525,119)
Charge for year	-	25,620	56,276	334,373	416,269
31 December 2019	-	250,376	557,629	1,843,923	2,651,928
Net Book Value					
At 31 December 2018	2,477,250	458,712	154,022	692,637	3,782,621
At 31 December 2019	2,667,250	968,075	75,794	1,078,672	4,789,790

11. FIXED ASSET INVESTMENTS

Group	Listed investments £
At 1 January 2019	35,163,542
Additions	5,855,332
Disposals	(10,854,573)
Revaluations	2,276,207
At 31 December 2019	32,440,508

Cost or valuation at 31 December 2019 is represented by:	Listed investments £
Valuation in 2019	32,440,508

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 2019

11. **FIXED ASSET INVESTMENTS (continued)**

Company	Shares in group undertakings £	Listed investments £	Totals £
Cost or Valuation			
At 1 January 2019	1,466,623	35,163,542	36,630,165
Additions	534,325	5,855,332	6,389,657
Disposals	-	(10,854,573)	(10,854,573)
Revaluations	-	2,276,207	2,276,207
At 31 December 2019	2,000,948	32,440,508	34,441,456
Impairment			
At 1 January 2019	83,489	-	83,489
Impairment loss	10,532	-	10,532
At 31 December 2019	94,021	-	94,021
Net Book Value			
At 1 January 2019	1,383,134	35,163,542	36,546,676
At 31 December 2019	1,906,927	32,440,508	34,347,435

Cost or valuation at 31 December 2019 is represented by:

	Shares in group undertakings £	Listed Investments £	Totals £
Valuation in 2019	-	32,440,508	32,440,508
Cost	1,906,927	-	1,906,927
	1,906,927	32,440,508	34,347,435

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

11. FIXED ASSET INVESTMENTS (continued)

The company'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:	Occupational health services
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

iHealth System Limited is no longer trading and therefore an impairment loss has been recognised to write down the fair value of the net assets.

Health Shield Insurance Services Limited and Health Shield Wellbeing 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 2019

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade debtors	4,358,446	4,655,067	3,995,737	4,292,784
Amounts owed by group undertakings	-	-	1,912,310	1,264,329
Other debtors	25,548	27,487	24,630	25,780
Prepayments and accrued income	570,220	785,598	563,891	781,117
	4,954,214	5,468,152	6,496,568	6,364,010

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade creditors	751,574	402,958	727,076	387,825
Tax	888	33,402	-	-
Social security and other taxes	1,504,459	1,229,134	1,479,939	1,229,134
Other creditors	18,912	(540)	(621)	(540)
Accruals and deferred income	973,072	1,101,080	909,817	1,038,473
Defined contribution pension	77,850	51,292	77,850	51,292
Provision for unearned premiums	483,311	459,903	483,312	459,903
	3,810,066	3,277,229	3,677,372	3,166,087

14. FINANCIAL COMMITMENTS

Operating leases

Minimum lease payments fall due as follows:

	Non-cancellable operating leases	
Group	2019	2018
	£	£
Within one year	30,486	15,253
Between one and five years	228,486	335,381
	258,972	350,634

The operating leases relate to motor vehicles and office equipment.

Other financial commitments

At the year-end date there were other financial commitments amounting to £3,012,533 (2018 £3,038,489). The financial commitments relate to ongoing contracts for standard business services.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2019

15. PROVISIONS FOR LIABILITIES

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Other provisions				
Long-term business provision (LTBP)	2,837,692	3,410,497	2,837,692	3,410,497
	2,837,692	3,410,497	2,837,692	3,410,497
Aggregate amounts	2,837,692	3,410,497	2,837,692	3,410,497

Group	LTBP £
Balance at 1 January 2019	3,410,497
Movement in year	(572,805)
Balance at 31 December 2019	2,837,692

Company	LTBP £
Balance at 1 January 2019	3,410,497
Movement in year	(572,805)
Balance at 31 December 2019	2,837,692

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

16. CONTINGENT LIABILITIES

The company 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 £320,000.

17. RELATED PARTY DISCLOSURES

The company 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.

18. **RELATED PARTY DISCLOSURES (continued)**

Company	2019 £	2018 £
Balances due from wholly owned subsidiaries	1,912,310	1,264,329

19. **POST BALANCE SHEET EVENTS**

Since the balance sheet date, COVID-19 has arisen and is causing disruption to the global economy. There has been a downturn within investment markets, however, the incident is still in the early stages and therefore the full impact is currently unknown. The Society's Own Risk and Solvency Assessment includes a sensitivity for equity markets falling by 25% and under this scenario, the Society's solvency position is not materially affected due to the corresponding reduction in the market risk component of the Society's Solvency Capital Requirement.

The Society is developing contingency plans in relation to other economic impacts that could occur and at the present time is able to continue in operation for the foreseeable future. However, as the full scale of the incident is currently unknown, future scenarios could occur which may impact this assessment. The Society is continuing to closely monitor the situation and act in accordance with the latest government advice.