2021 Annual Report and Accounts
Health Shield Friendly Society Limited

Year ended 31 December 2021

Contents

Board of Health Shield Friendly Society Limited

Board:

Ms J Hansen	Chair – Independent
Mr D Maddison	Senior Independent Director
Mr A Phizacklea	Non-Executive Director
Mrs A Alden	Non-Executive Director – Independent
Mr P Austin	Non-Executive Director – Independent
Mr R Willison	Non-Executive Director – Independent
Mr C Marsh	Chief Executive (resigned 14 July 2021)
Mr G Spencer	Interim Chief Executive (appointed 13 July 2021)
Mr S Hayhurst	Chief Operating Officer (resigned 2 September 2021)

Life President:

Mr J McKinnell MBE

Honorary Medical Consultant:

Dr R Preece   Leighton Hospital, Crewe

Chief Actuary:

Mrs C Spinks   OAC PLC

Auditors:

BDO LLP

Bankers:

Barclays Bank PLC

Investment Managers:

Investec Wealth and Investment Limited (LGT Vestra from 1st January 2022)

Board of Health Shield Friendly Society Limited

Julie Hansen

Chair

Julie has enjoyed over 20 years in sales, distribution, and business development roles. She brings a wealth of experience in financial services and the mutual sector to Health Shield. Her background provides an in-depth understanding of the ethics, governance and regulatory requirements within regulated businesses. Her main focus is ensuring the Board is effective and that the highest standards of service and best products possible are available for our members.
Committee membership – Member of the Nomination and Remuneration Committee and the Risk Committee.

David Maddison

Senior Independent Director

David's industry experience is wide and includes time as Fellow of the Pensions Management Institute and an Associate of the Chartered Insurance Institute. He retired in 2019 having been Managing Director and Deputy CEO of RPMI (the Railways Pension Trustee Company). His focus is on supporting and developing the Executive team in delivering the best service and products for our members. David is the Senior Independent Director.
Committee membership – Member of the Audit Committee and the Nomination and Remuneration Committee.

Alan Phizacklea

Non-Executive Director

Alan first became involved with Health Shield in the mid-'70s, and since then he has seen Health Shield grow from a small friendly society with just 35,000 members to supporting the 346,000 we do today. With a background in finance, he managed the Health Shield portfolio for over 20 years before he was appointed to the Board in 1998. His main responsibility is overseeing our investment fund so we can continue to provide the best level of benefits to our members.
Committee membership – Member of the Audit Committee and the Nomination and Remuneration Committee.

Alison Alden

Independent Non-Executive Director

Alison has over 20 years of experience in regulated industries, including the financial sector as a KPMG trained chartered accountant. She is chair of the Risk Committee and a member of the Audit Committee with experience in each of the related executive roles here at Health Shield. Alison's core task is to prevent and respond to any potential risks to the Society and to ensure that what we spend benefits our members.
Committee membership – Chair of the Risk Committee and member of the Audit Committee.

Paul Austin

Independent Non-Executive Director

Paul has worked throughout the financial services industry as a Chartered Accountant. He has been involved in the mutual sector since 2009. He has a broad range of experience across financial, risk, compliance and IT issues. Paul is focused on strategy and supporting the Executive directors in working towards clear shared goals that deliver value for our members.
Committee membership – Chair of the Audit Committee and member of the Risk Committee.

Robin Willison

Independent Non-Executive Director

Robin has over 40 years of experience within financial services, with over 15 of those in the mutual sector at a senior executive and board level. He has a sharp focus on serving the needs of our members, drawing on his expertise in leadership, strategy and change.
Committee membership – Chair of the Nomination and Remuneration Committee and member of the Risk Committee.

Geoffrey Spencer

Interim Chief Executive

Geoff has a long career in financial services spanning over 45 years in banking and insurance. He has held Chief Executive roles, has served as a non-executive Director and as an Interim Director in a range of financial services businesses. Over the last 15 years he has worked exclusively in mutual organisations helping them to develop their people and business strategies in an ever changing world. He is our Interim Chief Executive and additionally is CEO of a consultancy firm, Mutual Governance Limited.
Committee membership – Attendee at all sub-committees.

Chair's Report

It is my privilege to introduce the 2021 Annual Report and Accounts for Health Shield Friendly Society Limited.

Who could have predicted that 12 months after my previous report, and several COVID-19 variants later, we would still be experiencing the challenges of this global pandemic.

We are a healthcare and wellbeing business, which brings us into touch with so many of you who have endured challenging circumstances throughout this period. I am confident we have done everything we can to assist and support you at this time and will always do so.

COVID-19 has also affected all of us at Health Shield and my thanks go to all of our staff for their relentless efforts to overcome difficulties, at work and at home, to deliver the strongest service possible to you, our members.

The key business difficulty caused by the pandemic was the disconnection it caused between us as a business, and the companies and their advisors that we work with, to generate new product sales. This did result in a modest drop in our revenue but this was offset, to a significant extent, by a lower number of claims being received. Lower claims paid have led to an unintended increase in our surplus and we will use this money to provide beneficial outcomes for our members.

There are many challenges facing the business and a programme of change is underway, to ensure we remain the premier provider of health and wellbeing cash plans to the corporate market. Significant changes in the senior leadership team occurred in 2021 and I would like to take the opportunity to thank our former Chief Executive, Courtney Marsh, who left during the year. Courtney had been connected with the society for 20 years and held several roles during his time with us. In the meantime the Society has been led by an interim Chief Executive, Geoffrey Spencer, who has a wealth of experience at CEO level within friendly societies plus considerable experience of managing financial services regulatory matters. The Board commenced a search for a new CEO immediately and we are likely to announce Geoffrey's successor in the first half of 2022.

Towards the end of 2021, we welcomed Paul Shires to the senior team. Paul joined as Commercial Director in charge of all sales and marketing activities and has immediately made a positive impact. Paul brings over 30 years of financial services experience and is widely regarded as an industry expert on cash plan and wellbeing products.

I am supported by a first class board of directors and I thank them for their dedication and commitment to the Society. It is with sadness that I advise you that, after 24 years with the Society, Alan Phizacklea, will retire in 2022. His contribution to the society has been immense and everyone at Health Shield wishes Alan a long and happy retirement.

We fervently hope that 2022 is the year when all of our lives, both personal and business, can return to normal. It will be a year in which we will further strengthen our team at board level, by the addition of 2 new non-executive directors, and will see the emergence of a new senior leadership team under the management of the incoming Chief Executive Officer.

I have great confidence in our ability to deliver significant information technology and product development to keep us at the forefront of the Cash Plan market.

In 2021, the Society was awarded the Best Health Cash Plan Provider prize at the UK Health and Protection Awards. We have every intention of retaining our leading position and continuing as a well-known, successful leader in the sector for many years to come.

Finally, my closing words go to our members, thank you for your continued support.

Signed on 6 April 2022

Julie Hansen

Chair

Chief Executive's Report

Our Chair, in her report above, has outlined the challenges faced by the Society in 2021. They are not over yet but, in terms of the pandemic, we do seem to be heading out of the worst aspects and back to a more normal future. Nevertheless, the impacts will be felt for some time to come and recovery work will continue in 2022.

The Change Programme

During the year, the Society commenced a significant period of operational change.

The most important change is an extensive programme to replace and redevelop the Society's information technology capabilities. A relatively modest project has been underway since 2019 but the Board has recognised that the pace of change was not keeping up with that both within financial services generally, and against our competitors specifically. We expect to accelerate and increase change in this respect from the second quarter of 2022 onwards.

This change is needed for the future sustainability of the Society in terms of its market competitive position and, secondly, to meet the higher standards of "operational resilience" expected of all financial services firms by our regulators.

A second area of activity, and of equal importance, is the ongoing review of our entire product range to ensure that we are offering "fair value" to the policy holders and members. We are a mutual society here for our members, and are eager to demonstrate, as required by our regulators, that fair value is being provided in return for the premiums we receive.

Financial matters

Turning to our 2021 Group performance, it is important that I explain for our members the context of the movements in our performance compared to 2020:

Membership

Membership increased from 335,041 to 346,308.

Our main market of corporate cash plans is characterised by intermediaries advising companies to re-tender their Cash Plan product regularly. This leads to regular switching between providers and, whilst the net increase in our members is relatively small, it represents reasonable growth in a year when our ability to present our products in person was seriously hampered.

Net Earned Premium

Net earned premiums fell from £40.6m to £39.1m

One of the impacts of the pandemic has been fewer claims being made and this led to a build-up of what we call "unintended surplus." We have been using some of this surplus to prevent increased premiums being applied to existing Cash Plan policies upon renewal. If this had not been the case, we would have seen an increase in the net premium achieved.

Revenue

Total revenue fell from £43.2m to £42.3m

The small fall in revenue is attributable to premium rates not being increased, as described above.

Member Claims

Member claims increased from £21.6m to £25.3m.

The level of claims received is increasing in line with expectations, back towards pre-pandemic levels. The speed of the return to pre-pandemic claiming patterns has varied across the Society's different schemes however, we expect all schemes to have returned to pre-pandemic levels during 2022.

Net Operating Expenses and profitability

Net operating expenses increased from £13.8m to £19.1m and the financial surplus fell from £9.6m to a £4.4m deficit.

The increase in net operating expenses has been largely caused by adjustments in respect of historic acquisitions and technology costs, which in turn reduced profitability. A more detailed explanation is given in Note 6 of these financial statements.

Removing these non-recurring items would result in an operating expense ratio of 40% which is broadly in line with its pre pandemic level of 38%.

Solvency Ratio

The Solvency Ratio decreased from 381% to 317%.

The decrease in the Solvency Ratio is not a matter for concern. At over 300% it remains higher than many Friendly Societies and shows the financial strength of the Society. We do expect it to decrease in the coming years due to investment of some of the surplus into improving our information technology systems and because, due to regulatory requirements, we will increasingly transfer the existing product range from long term policies to shorter term general insurance policies.

In conclusion

In the Society's long history, 2021 saw the commencement of change on a scale it may not have experienced before and to deliver this will involve extending and improving people resources across the business. This was commenced in 2021 and I am confident my successor, in 2022, will establish the necessary resources to deliver success.

Signed on 6 April 2022

Geoffrey Spencer

Interim Chief Executive Officer

Strategic Report

Our mission

The Society's overarching mission is to help people lead healthy, happy lives.

Our promise

As a Friendly Society, Health Shield recognises its origins and will keep its members interests at heart at all times. The Society aims to do this by making it easier for people to look after themselves by providing affordable health benefits that are easy to access. To achieve this aim it will deliver health and wellbeing products to meet the specific needs of individuals, businesses and their employees and will ensure fair value is provided by every product.

Values and behaviours

The Society has core values which represent how it treats its membership, and behaviours which represent how it treats its staff, members and all other stakeholders. At all times, the Society strives to create an environment which is supportive, friendly and inclusive.

Values

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

Behaviours

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

Strategic objectives

The Society's key strategic objectives are as follows:

1. Financial stability – to provide long-term financial stability for its members by always being able to pay claims when they fall due.
2. Capital management – to set its appetite for solvency coverage in order to protect members' interests, while investing ethically and achieving robust returns.
3. Generate sustainable growth – by providing attractive products and fair value for customers and members whilst implementing sound cost controls in business operations.
4. Strong governance – maintain high standards of corporate governance and conduct in all areas to identify, understand and manage risks.
5. Future proof technical infrastructure – to provide a resilient and high availability infrastructure that delivers on the needs of all our customers.
6. Market leading products and services – to listen to the Society's stakeholders when managing the existing product range and when developing new products.
7. Invest in our people – to create an environment where employees are empowered and motivated, strive for excellence and conduct themselves with integrity.
8. Maintain stakeholder service – to provide great service to our members, their employers and the intermediaries who distribute our products.

Business review

The continuation of the COVID-19 pandemic into 2021 caused further economic uncertainty in UK and global economies. The UK's third lockdown at the start of the year caused another contraction of the UK economy; however, overall 2021 has generally seen GDP growth throughout the year. UK GDP grew by 7.5% during the year and returned to pre-pandemic levels ahead of expectations in November. Further GDP growth is forecast for 2022 but at lower levels than those seen during 2021. Unemployment continued to decline throughout the year and the predicted redundancy spike, upon cessation of the coronavirus job retention scheme, didn't materialise.

These ongoing economic impacts provided another challenging year for the Society.

Generating new business again proved difficult. Despite this, the Society welcomed a net increase in new members with an increase of 3.4%.

During the early stages of the pandemic, the Society committed to utilising the additional surplus generated as a result of COVID-19 for the benefit of its members, through a combination of supporting premiums/benefits and developing the Society for the future. The Society has delivered on this promise with approximately £2.7m already returned through reduced/held premiums and benefit increases. This has resulted in cash plan premiums falling by 4% compared to 2020.

The Group's health screening business operating through Prevent Limited, a subsidiary of Health Shield Friendly Society, continued to be the area most severely impacted by the pandemic. The screening proposition is provided on-site at customers' premises. Consequently, the continued prevalence of home working, and reduced occupancy at employer premises, meant that this business could not operate for a large portion of the year. The final quarter of 2021 showed promising signs in relation to customer appetites for screening services and therefore a more positive 2022 is anticipated in relation to this revenue stream. The Society remains committed to the health screening proposition.

As with last year, the other key area that continued to be impacted by COVID-19 was member benefits and claims costs. Despite strong upturns in claiming levels in the second half of 2020 and throughout 2021, these remain below pre-pandemic levels. During 2021, the Society paid out £25.3m (2020: £21.6m), which accounts for 65% (2020: 53%) of earned premium income.

The Society continued to invest in the delivery of its digital transformation and enhanced technical infrastructure in line with its strategic objectives. Operating expenses as a proportion of total income (excluding investment income) increased to 48% from 33% last year. The Society incurred one-off exceptional costs during 2021 which are detailed in note 6. Excluding these costs, the operating expense ratio was 40% which is broadly in line with its pre-pandemic level of 38%.

Investment markets showed gains throughout 2021 which resulted in the Society's investments generating returns of £2.3m compared to £1.5m in 2020. Further details regarding investment performance are shown below.

The Society maintained a strong solvency position of 317%. This was a reduction from 381% in the previous year however, that was artificially high due to the reduced claiming patterns seen in 2020 as a result of COVID-19. The current year solvency ratio is in line with that seen before the pandemic (2019: 315%). The reduced claiming patterns in 2020 also resulted in a reduction to the Society technical provisions last year. This has now reversed resulting in an expense within the current year income statement of £2.2m.

These factors combined to result in the Society generating a deficit for the year of (£4.4m) (2020: surplus of £9.6m). The exceptional items referenced above and in note 6, along with the technical provisions increase, account for £5.3m of this deficit therefore the underlying position excluding these would be a surplus of £0.9m.

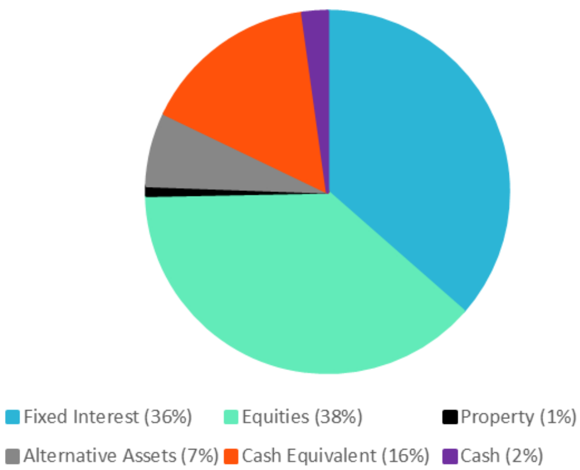
Despite the ongoing impacts of the pandemic, the Society was pleased to maintain strong levels of customer service. Claims processing times dropped slightly over the year from their usually extremely high standard (88% compared to 94%). For the majority of the year performance was well over 90% however, it saw a dip in the Autumn due to staff sickness and some leavers within the team, which took time to fully train and integrate replacements. By the start of 2022, processing times were back to 94%.

Despite this slight dip in performance, customer satisfaction scores remained high and actually increased slightly year on year (4.5 compared to 4.4 out of 5).The Society continued to receive only low levels of complaints and this remained consistent year on year (0.14% compared to 0.13%).

The results for the year are shown in detail in the Income and Expenditure account on pages 48 - 49.

Investments

The breakdown of the Society's portfolio as at 31 December 2021 is shown in the chart below:



Following the significant market falls seen in 2020, the FTSE and other global markets saw sharp increases in the final quarter of 2020 and continued to climb throughout 2021. By the end of 2021, the FTSE had recovered to a level 2% below its value at the start of 2020.

The economic rebound from the pandemic led to rising energy costs (which have tripled since the start of 2020) and amplified inflationary concerns towards the end of 2021. This led to bond yields rising in anticipation of central banks having to raise interest rates to combat inflationary pressures.

During the year the Society has held an overweight overseas equity position, at the expense of fixed interest, alternative assets and property. This has provided a positive contribution to performance as overseas equities have generated strong absolute returns and outperformed their respective benchmark.

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

	2021 Performance	Benchmark	Over/(Under) Performance
Fixed Interest	(1.0%)	(1.5%)	0.5%
Equities	15.2%	19.1%	(3.9%)
Alternatives	8.9%	2.1%	6.8%
Combined	**7.0%**	**6.8%**	**0.2%**

The key investment risks faced included:

- Market risk – the risk of an adverse impact on the Society's solvency position due to a decrease in equity market performance
- Property risk – the risk of a fall in property prices
- Interest rate risk – the risk from movements in interest rates

- Spread risk - the difference between the quoted rates of return on two different investments
- Counterparty default risk – the risk that one or more parties might default on their contractual obligations

The Society holds a diversified portfolio in order to minimise the risk of loss resulting from over concentration of assets in a specific class or industry.

The Society's asset class allocation also stipulates that the combined total of the following should be matched with cash, fixed interest or index linked securities:

- All technical provisions
- Solvency capital requirement (excluding market risk capital)
- Pillar 2 additional risk capital (excluding market risk capital)
- Estimated 3 year cash outflow

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.

During the year a tender of the Society's investment management services was undertaken and as a result of this, the Society's investments are to be managed by LGT Vestra LLP from the start of 2022.

Key Performance Indicators 2021

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	**2021**	**2020**	**Movement**
Total Income	£39.9m	£41.6m	(4%)
Operating costs %	48%	33%	(44%)
Balance sheet net assets	£44.6m	£49.0m	(9%)
SCR coverage	317%	381%	(17%)
Membership	**2021**	**2020**	**Movement**
Number of new members administered by the Society	106k	81k	31%
Total number of active members	346k	335k	3%
Customer Service	**2021**	**2020**	**Movement**
Claims processed within two working days	88%	94%	(7%)
Customer satisfaction rating regarding claims – Likert scale measurement (out of 5)	4.5	4.4	2%
Complaints as a % of final membership	0.14%	0.13%	9%

Details regarding the performance of the above indicators are shown in this business review and the Chief Executive's report above.

Key Performance Indicators Glossary

Financials

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

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

Membership

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

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

Customer Service

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

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

Going Concern

The Society's business activities, together with the factors likely to affect its future performance, liquidity and planned growth are set out in this report. In addition, note 7 of the Notes to the Accounts on pages 64 - 72 includes the Society's policies and processes for managing its capital and financial risks.

The Society has a strong capital position (solvency ratio of 317%). The Society is implementing plans to address the underlying operating deficit and aims to return this to a surplus within the next four years. In the intervening period, the Society expects to generate deficits due to the continued investment in its strategic objectives along with the ongoing impacts of the COVID-19 pandemic. The ongoing impacts of the pandemic include aspects such as continuing economic uncertainty and a lower than anticipated membership base due to the difficulties encountered in attracting new business during the pandemic. Based on current forecasts, there are no indications that the Society will not maintain a robust capital position.

Following the recent Russian invasion of Ukraine, the Society has reviewed any immediate financial and operational exposure resulting from the ongoing conflict. The Society holds minimal direct investments in these countries and has no operational reliance on either nation. Management will retain a watching brief and take appropriate action as and when it is required.

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 as follows:

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

Following the analysis, the Board believes there is a reasonable expectation that the Society has adequate resources to continue in operational existence for at least 12 months from the date of approval of the Annual

Report and Accounts. Accordingly, the Society continues to adopt the going concern basis for the preparation of the annual report and accounts.

Future Prospects

The Board has assessed the Society's future prospects over a five-year period to December 2026. 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 plausible scenarios through the use of stress testing and sensitivity analysis. The assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. Within the assessment, the Board has taken account of the Society's solvency position, its investment policy and its key mitigating action of adjusting rates of contributions and benefits.

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

- Insurance risk – 4 sensitivities which include variations to claims inflation, IPT rates and lapse rates.
- Market risk – 3 sensitivities which include variations to equity values, bond values and corporate bond defaults.
- Operational risk – 3 sensitivities which include variations to new business volumes and expense levels.
- 5 scenarios covering the following potential risk areas were run – operational risk (2 scenarios), climate change, cyber-attack and a future pandemic.

The Society is implementing plans to return to operating surplus and aims to achieve this within the next few years. An element of the expected losses in the period leading up to this results from investment in the Society's technical infrastructure and digital transformation. This will enhance member experience and form the foundation of a long-term sustainable future for the Society and its membership.

The Society's ORSA shows that it's anticipated to maintain a sufficient capital position throughout the five-year plan.

The continued emergence of new COVID-19 strains make predicting the future economic impacts and timeframes in relation to the pandemic extremely uncertain. However, the Society's performance during 2020 and 2021 indicates that any ongoing COVID-19 impact would be unlikely to materially affect the Society's solvency position.

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

Principal Risks and Uncertainties

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

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

Economic and political environment

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

- The UK economy saw dramatic falls during the course of the pandemic and did not return to pre-pandemic levels until late 2021. Further growth is forecast throughout 2022 but at lower levels than those seen this year. In the short term, continued pressure on businesses as the pandemic persists (particularly in certain sectors) could result in reduced demand for health and wellbeing products as firms manage their cost bases. 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 wish to support their employees in a challenging environment.
- The Society has always been susceptible to Insurance Premium Tax (IPT) increases and uncertainty remains over the outlook for potential increases. This concern is amplified as the UK government will look for avenues to assist with managing the national debt. Any IPT rise would increase the cost to customers and risk pushing the premium to a level at which the benefits could be perceived as marginal.

Competition

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

- The Society's health cash plan remains its core insurance-based product. There remains scope for disruption from larger players entering the market and even for existing players to adopt more competitive pricing strategies by using technology to lower operating costs.

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

Internal control

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

Climate Change

Climate Risk

Risks from climate change are generally categorised in terms of physical risks that arise directly from rising global temperatures, and transition risks that arise through the actions, initiatives and behaviours aimed at limiting the rise in global temperatures.

Both types of risk have the potential to impact the success of the Society's business model. The Society has therefore focussed on understanding the threats and opportunities arising from climate change. Climate change has also been incorporated into the investment strategy, including development of an Environment, Society and Governance (ESG) Policy.

Impact of Climate Risk on the Society

The Society has reviewed all aspects of its business model and considers it to be low risk in relation to climate-related risk.

The key risks identified were:

- Investments – ensuring that the Society's investment portfolio is managed in such a way as to minimise the risk of loss of value due to climate change implications.

- Green credentials – ensuring that the Society maintains pace with market expectations regarding green credentials to minimise the risk of loss of members.

The Society's investment managers have a strong ESG stance within their investment process to ensure that risks to the Society's portfolio are monitored and managed accordingly. The Society will continue to work closely with the investment managers to ensure that climate risks continue to be monitored and mitigated as they evolve over time.

The Society has considered a climate change scenario within its capital modelling process. This scenario did not impact the Society's ability to maintain a sufficient capital position throughout the timeframe of its five-year plan.

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

Impact of the Society on the Environment

The Society is actively reducing its carbon footprint and has already implemented a number of initiatives in respect of this including:

- Installing solar panels
- Installing electric vehicle charging points
- Installing energy efficient lighting
- Providing flexibility within the company car scheme to increase the uptake of hybrid or fully electric vehicles
- Removing single use plastic cups from head office
- Providing recycling bins for all waste
- Establishing an environmental focus group

The Society will continue to monitor its impact on the environment and will look to enhance its work in this areas in the coming years.

Financial Statements

There are currently no impacts on the financial statements arising from climate change considerations.

The Future of the Cash Plan and Health and Wellbeing Market

The ongoing impact of COVID-19 and emerging new strains is likely to continue into the coming year and potentially beyond. This will lead to continuing economic uncertainty although economic growth is anticipated in 2022.

The economic outlook will provide challenges for the Society; however, the pandemic and its impact on employees has raised the profile of employee wellbeing with employers. This increased recognition of the need for employee wellbeing is expected to be positive for the Society as its products address a number of challenges that employers and employees will be facing.

The Society's continued investment in improving its products and member experience will ensure that it is well positioned to take advantage of the increased focus on this market.

Health cash plans remain a popular and competitive product and this is expected to continue. This is particularly true in the company paid area of the market in which the Society is the market leader.

Approved by the Board of Directors and signed on behalf of the Board on 6 April 2022.

Geoffrey Spencer

Interim Chief Executive

Board Report

Introduction

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

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

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

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

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

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

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 2021 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 2021 was £3,064 (2020: £10,306).

Complaints Procedure

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

Officers' Liability Insurance

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

Statement of Disclosure to Auditor

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

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

By order of the Board on 6 April 2022

Geoffrey Spencer

Interim Chief Executive

Corporate Governance Report

Introduction

For the year ended 31 December 2021, the Society's Corporate Governance principles were in accordance with the Association of Financial Mutuals (AFM) Corporate Governance Code which took effect from 1 January 2019.

Purpose and Leadership

Principle

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

Principle Applied

Yes

How Applied

The Society's Board has,at all times, supported the mission and purpose of the business. It does this by critically appraising and then appropriately authorising strategies initially developed by the Senior Leadership team in the business, and then providing support, guidance and oversight of delivery of the strategic plan as it is implemented.

The Board as a team, and through its various Board Sub – Committees, regularly engages with senior leaders to assess delivery of responsibilities and to provide suggested improvements where needed. In addition, Board non-executive directors regularly engage in a mentoring capacity with the most senior people in the business.

During 2021 the Board also recognised the importance of independent assessment of itself and therefore a Board Effectiveness review was conducted by an external provider. A number of improvement recommendations were made, and all will be followed though by the Board who asked the Company Secretary to manage the process.

Board Composition

Principle

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

Principle Applied

Yes

How Applied

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

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 when it has conducted an open market search for candidates.

The Society will employ two new non-executive directors in 2022 and, prior to instructing a recruitment company to act, an analysis was undertaken to identify skill gaps which reflect forthcoming business strategic needs. We also recognise the importance of Diversity, Equity and Inclusion in improving the quality of a Board and this to was part of the recruitment brief.

The Board Effectiveness Review mentioned above confirmed the effectiveness of the Chair, other non - executive Board Members, and identified potential skills gaps going forward as to inform new director recruitment.

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

	Board	Audit	Risk Management	Nomination and Remuneration
Non-Executive Directors				
J Hansen	5 (5)	N/A	4 (4)	4 (4)
D Maddison	5 (5)	4 (4)	N/A	4 (4)
A Phizacklea	5 (5)	4 (4)	N/A	4 (4)
A Alden	5 (5)	4 (4)	4 (4)	N/A
P Austin	5 (5)	4 (4)	4 (4)	N/A
R Willison	5 (5)	N/A	4 (4)	4 (4)
Executive Directors				
C Marsh (resigned 14 July 2021)	2 (3)	N/A	N/A	N/A
S Hayhurst (resigned 2 September 2021)	3 (3)	N/A	N/A	N/A
G Spencer (appointed 13 July 2021)	2 (2)	N/A	N/A	N/A

At the end of 2021, the Society met the independence criteria with 5 of the 6 Non-Executive Directors being independent, which is above the suggested 50% target.

Director Responsibilities

Principle

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

Principle Applied

Yes

How Applied

The Society maintains the following documents to ensure Directors have a clear understanding of their roles

- Those Directors who are Senior Manager Function Holders have Statements of Responsibilities detailing their regulatory prescribed responsibilities. These from part of the Society's Management

Responsibilities Map which defines all the governance the interrelationships operating within the business.

- Delegated authority matrix, which details the responsibilities that have been delegated to the sub-committees and CEO.
- A set of Board Policies which define how the business will operate.
- The Society's Memorandum and Rules, which governs the purpose and powers of the Society.
- Sub-committee terms of reference – which detail the role and responsibilities of each sub-committee.

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

The Board has formed three sub-committees to assist with the consideration of specific key areas and each is chaired by an Independent non-executive director:

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

The governance code's recommendations regarding membership, independence and experience for Board Sub Committees have all been met by the Society.

The Board relies on second line challenge and third line oversight (further details regarding the three lines of defence are shown on page 33) to ensure internal controls and systems of risk management are effectively implemented and monitored.

Opportunity and Risk

Principle

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

Principle Applied

Yes

How Applied

The long term sustainability of the Society was a key concern for the Board during the year. Identifying new opportunities is a part of the Society's sustainable business model strategy but this must be managed within the Risk Appetite. The Board also recognises that opportunities also arise from cost control and developing more effective ways of operating the business, particularly by improved information technology systems.

The Board works within a defined and Board approved risk management framework which is additionally supported by an annual forward looking assessment of own risks (ORSA). This is a key component in how the Society manages its ongoing solvency position and determines if a material expenditure of own funds is a sound use of financial resources.

The Society's approach to risk governance is reported in more detail later in the Corporate Governance Report on pages 26 - 34.

Remuneration

Principle

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

Principle Applied

Yes

How Applied

The Remuneration and Nominations Committee is responsible for determining the remuneration packages of anyone who is a Senior Manager Function Holder and also approves the company wide bonus structure.

In conducting their work they are mindful of regulatory guidance on remuneration structures and balancing that with the need to attract and retain high quality leaders in the business.

Details regarding the Society's remuneration policy are shown on pages 35 - 37.

Stakeholder relationships and engagement

Principle

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

Principle Applied

Yes

How Applied

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

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

- Annual General Meeting – the delegates provide certain approvals in line with the Society's memorandum and rules. Ahead of the AGM, the Board and Executive team undertake delegate 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. Due to the ongoing COVID-19 pandemic, the 2021 delegate meetings were postponed until later in the year and the AGM held virtually. It's currently expected that both of these will resume as face to face meetings in 2022.
- Newsletter – the Society distributes a newsletter to delegates to keep them informed of developments within the Society.
- Meeting with the Board – on an annual basis, a representative number of delegates are invited to meet the Board to receive an update regarding the Society's performance and to be able to asks questions and provide feedback. The first such meeting was held in October 2021 after being cancelled in 2020 due to the COVID-19 pandemic.

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

The Society has implemented a people strategy to further enhance its engagement with employees. During 2021 and into 2022 the Society is stepping up to better understand and drive enhanced levels of Diversity, Equity, and Inclusion.

Employee engagement includes aspects such as:

- Employee forum
- Corporate briefs
- Employee surveys
- Employee events
- Staff incentives
- Employee awards

The Society has also implemented a corporate social responsibility (CSR) policy and environmental focus group. 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.

Additionally the Society has engaged with staff and suppliers as it develops it response to Climate Change as requested by our Regulators.

Corporate Governance Report – Board and Committees

Board of Directors

Ms J Hansen	Chair
Mr D Maddison	Senior Independent Director
Mr A Phizacklea	Non-Executive Director
Mrs A Alden	Non-Executive Director
Mr P Austin	Non-Executive Director
Mr R Willison	Non-Executive Director
Mr C Marsh	Chief Executive – resigned 14 July 2021
Mr S Hayhurst	Chief Operating Officer – resigned 2 September 2021
Mr G Spencer	Interim Chief Executive – appointed 13 July 2021

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

Audit Committee

Membership

Mr P Austin	Chair
Mr D Maddison	Non-Executive Director
Mr A Phizacklea	Non-Executive Director
Mrs A Alden	Non-Executive Director

All members of the Committee are Independent Non-Executive Directors, except for Mr A Phizacklea, who is the only non-independent member of the Committee. The Board believes members have the necessary range of financial, risk control and commercial expertise to provide effective challenge to management.

Role

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

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

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

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

Responsibilities

The key responsibilities 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 Annual Report and Accounts, the annual regulatory return and the annual statement of compliance with the principles of the AFM Corporate Governance Code.
- Monitor the overall framework of internal control, particularly those elements concerning financial reporting and disclosure, and advise the Board on the appropriateness of policies and procedures designed to maintain control over transactions and events.
- Oversee the effectiveness of the Society's Internal Audit function and the implementation of outstanding audit actions.
- Oversee the selection process and make recommendations to the Board regarding appointment, re-appointment or removal of the Society's external auditor and, in turn, manage the relationship with the external auditor.
- Review the Society's procedures for whistleblowing, ensuring that the Society's arrangements are adequate for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee should ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- Review the Society's procedures for the prevention of bribery and receive reports on non-compliance.
- Review the Society's procedures for detecting fraud and receive reports on non-compliance.
- Monitor the annual operating budget and annual capital budget and advise the Board on whether there is robust financial control consistent with the Society's strategy, corporate plans and financial policies.
- Monitor the financial performance of the Society as a whole against its approved operating and capital expenditure budgets, long-term trends and industry benchmarks.
- Review and approve, as justified, unbudgeted operating expenditure and any capital expenditure which is above the delegated authority of the Executive.
- Review annually, the expenses of all directors and make any necessary recommendations to the Board for action.
- Work and liaise as necessary with all other Board Committees.
- 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.

Key Committee activities during the year

The Committee met on 4 occasions during the financial year. The key items considered were as follows:

- Completion of a tender exercise for outsourced Internal Audit services which resulted in the continuation of the co-sourced arrangements with PWC and internal audit resources.
- Agreement of the Internal Audit Plan and Charter for the year to ensure that it provides sufficient coverage in accordance with the Combined Assurance Map.
- Monitor progress and results of Internal Audit reports throughout the year and ensure that findings are reviewed and appropriate action taken in a timely manner.
- Review to assess whether the Annual Report & Accounts, taken as a whole, was fair, balanced and understandable.
- Review to ensure the Annual Report & Accounts provides sufficient information to members regarding the financial position and strategy of the Society.
- Made recommendation to the Main Board to approve the Annual Report & Accounts.
- Review of the external audit plan, fees and audit engagement letter.

- Review of Regulatory Solvency Report (RSR) and the Solvency and Financial Condition Report (SFCR) for recommendation to the Main Board.
- Review of actuarial reports and valuations for inclusion within the Financial Statements.
- Review of the results of the business against the strategic objectives and operational budgets.
- Review of the Committee's Terms of Reference.
- Review of policies for Internal Control, Financial Crime and Whistleblowing.
- Review of the gifts and hospitality register.

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 2021, 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.
Property valuation	The property occupied by the Society is long leasehold and is included under 'Land and Buildings' on the balance sheet. It is carried at open market value.
Investment in subsidiary, goodwill and intercompany balances	Health Shield carries the investment value of Prevent and an outstanding intercompany debtor with them on the balance sheet. Given that Prevent is currently in a net liability position there is a risk that the investment requires an impairment and the debtor is not fully recoverable.
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.
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.
Valuation of software intangible assets	There is a change to the short-term plans for the Society's intangible asset relating to the Breeze platform. Therefore, there is a risk that the asset is impaired.

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

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

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

Nomination and Remuneration Committee:

Membership

Mr R Willison	Chair
Ms J Hansen	Chair of Board of Management
Mr D Maddison	Senior Independent Director
Mr A Phizacklea	Non-Executive Director

All members of the Committee are Independent Non-Executive Directors, except for Mr A Phizacklea, who is the only non-independent member of the Committee. The Chief Executive Officer is not a member of the Committee but attends to discuss remuneration matters where appropriate

Role

The Nominations and Remuneration Committee provides assurance to the Board regarding recruitment, retention, training, performance and reward. This includes the recruitment and retention of the appropriate skills and competence mix to meet the long-term strategic aims of the Society, with particular regard to holders of Senior Management Functions.

Responsibilities

The key responsibilities of the committee are:

In respect of nominations:

- To review the structure size and composition of the Board and its requirements for skills, knowledge, diversity and independence, making recommendations to the Board for any proposed changes
- Formulate succession plans for both Executive and Non-Executive Directors of the Board, Senior Management, key function holders, other material risk takers
- Identify and nominate for the approval of the Board, suitable candidates to fill Board vacancies, as and when they arise
- Make recommendations to the Board for approval on appointments to the Board's Committees and ensure that they are rotated sufficiently frequently to spread expertise and maintain freshness of oversight
- 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, at least every three years, this is undertaken by an external, independent body.
- Review the ongoing training and competence needs of the Board and other Senior Management Function holders.
- 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
- Assist the Board in developing and maintaining the Society's culture, its behaviours, body of ethics and code of business conduct.

In respect of remuneration:

- Recommend to the Board for approval, the Society's Remuneration Policy.
- Ensure that the Remuneration Policy aligns with the risk appetite of the Society and is consistent with the Society's long-term strategic goals and prevailing regulation and guidance.
- Oversee its implementation for the total remuneration of Executive Directors, the Chairman, the Company Secretary and members of the senior management team, with due regard to external benchmarking. This includes bonus, any other incentive payments, benefits, pension rights, redundancy and compensation payments that may arise.

- Review and monitor the remuneration of the Society's employees, including bonuses, commission, incentive payments and any other 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
- Oversee any major changes in employee benefits structures throughout the Society.

Key committee activities during the year

The committee met on 4 occasions during the financial year and the items considered included:

- Appointment of an external Board Effectiveness Review and subsequent consideration of its recommendations for submission to the Board
- Review of Board succession requirements and the subsequent appointment of an external search firm to identify and recruit a new CEO and 2 new NEDs
- Appointment of an interim CEO and other senior management function holders.
- Design and approval of a single Executive Bonus scheme.
- Overview of executive and senior management performance appraisals and subsequent award of bonuses.
- Agreement of the overall total of bonus payments to senior managers and staff.
- Agreement of basic salary changes for senior management and staff.
- A review of NED fees and subsequent change to a fixed fee basis in line with market practice.
- Consideration of diversity, equity and inclusion across the Society including the adoption of a new policy to support future plans
- Annual review of the Society's defined contribution pension scheme managed by Royal London.

Risk Management Committee:

Membership

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

All members of the Committee are Independent Non-Executive Directors. The Board believes members have the necessary range of risk management, compliance, regulatory and investment expertise to provide effective challenge to management.

Role

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

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

Responsibilities

The key responsibilities of the Risk Management Committee are to:

- Advise the Board and make recommendations as necessary, on the Society's overall risk appetite, tolerance and strategy, taking account of the current and prospective macro-economic and financial environment and drawing on financial stability assessments.
- Review and recommend to the Board the design and implementation of the Society's risk management and capital management policies and frameworks.
- Review and recommend for approval by the Board, the Society's annual Own Risk and Solvency Assessment (ORSA) assessment and report, the associated annual business 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 Interim Head of Governance 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.
- Oversee the risks associated with processes and controls for the merger or acquisition of new operational entities and ensure that they are managed through the merger/acquisition process.
- Provide qualitative and quantitative advice to the Nomination and Remuneration committee on risk management considerations in its development and/or appraisal of targets and performance objectives for executive remuneration.
- Consider and approve the remit of the risk management function, ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- Ensure that the Chief Risk and Data Officer can operate with sufficient independence to discharge his/her responsibilities effectively including the right of unfettered direct access to the Chair of the Board and to the Risk Committee.
- Review promptly all reports from the Chief Risk and Data Officer and Compliance Manager and monitor managements responsiveness to the finding and recommendations of these reports and those emanating from the Chief Actuary.
- Recommend to the Board for approval the Society's approach to market and liquidity risk management and monitor the market and liquidity risk appetite ensuring that appropriate actions are being taken by the Executive.
- Review the adequacy of the Society's Business Continuity Plan, recovery and resolution plan and information security procedures.

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

- Agree and oversee the effective operation of a process for review and monitoring of the Society's investment of its assets.
- Review and recommend to the Board the Society's investment policy.

- Consider candidates for appointment as external Investment Advisors and, following a competitive tender process, recommend to the Board the selected candidates. Set out and agree the engagement terms and conditions, including the advisers' remuneration.
- Undertake a further review of this appointment after the term agreed with the Board and go out to competitive tender, as necessary.
- Receive and consider reports from the appointed external Investment Advisors, both independently in Committee and face to face at agreed intervals and monitor the performance of the investment portfolio against targets and benchmarks set by the Board.
- Continuously review the performance of the outsourced investment management function and recommend action as necessary.

Key committee activities during the year

The Committee met on 4 occasions during the financial year. The key items considered were as follows:

- Review of the quarterly risk reporting including the risk heat map and key controls.
- Review and recommendation to the Board of risk appetite.
- Review and monitoring of the quarterly compliance report including regulatory publications and interaction.
- Review of selected internal audit reports insofar as they relate to the risk management of the Society.
- Review and recommendation of the ORSA report to the Board, including its design, objectives, sensitivities and approval process.
- Review of the risk related disclosures within the Financial Statements, RSR and SFCR reports.
- Review of the quarterly calculations for capital requirements and monitoring of the Society's position against them.
- Review of investment performance and position in relation to the Society's agreed investment policy.
- Completion of a tender exercise for outsourced Investment Manager services, which resulted in a change of manager from Investec to LGT Vestra.
- Review of the Committee's Terms of Reference.
- Review of policies for:
    - Capital management plan
    - ORSA policy & process
    - SM&CR policy
    - Data protection policy
    - Risk management policy
    - Compliance policy
    - Financial risk policy
    - Operational risk policy
    - Conduct risk policy
    - Supplier management policy

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 above.

The Three Lines of Defence

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

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

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

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

Risk and capital management

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

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

Key functions in risk governance

Risk Management Function

- The function supports the Society in understanding its material risks and in doing so; to reduce uncertainty and achieve its objectives, safely expand risk-taking ability, identify new opportunities and achieve a competitive advantage;
- The Risk Management function will support the first line to identify, measure, manage and report on risk at an individual and at an aggregated level;
- The Risk Management function will assist the Risk Management Committee in reviewing and recommending the Risk Appetite Statement and the Risk Management Policy to the Board for approval;
- The Risk Management function will provide an independent view on strategic and key business decisions, providing challenge as appropriate such that risk is explicitly considered in the decision-making process;
- The Risk Management function provides appropriate risk training to the Board, management team and staff.

Compliance Function

- The Compliance function promotes compliance with applicable laws, regulations and expectations by communicating with, educating and challenging the Society on all its relevant activities;

- The Compliance function submits an annual plan of activity and resource to the Risk Management Committee.

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

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

Actuarial Function – outsourced to OAC Plc

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

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

Directors' Remuneration Report

Introduction

This report sets out our Directors' Remuneration Policy for 2021.

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 fee. The Chair of the Board receives a higher annual fee to reflect the additional work and responsibilities of this position. An additional fee is also paid to Sub-Committee Chairs and the Senior Independent Director.

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. The current scheme provides a discretionary annual performance related bonus of up to 40% of base salary, 40% of which is deferred for a period of three years. The criteria is split between Society and individual performance and the scheme provides flexibility for the entitlement to be enhanced for exceptional performance.

The structure of performance related pay was reviewed during 2020 and a new scheme implemented for 2021.

Retirement and Related Benefits

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

Other Benefits

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

Directors' Contracts

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

Non-Executive Directors

Salary

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

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

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

The structure of Non-Executive Director fees was reviewed in 2020 and the proposed changes were implemented for 2021.

Performance Related Pay

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

Retirement and Related Benefits

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

Other Benefits

Non-Executive Directors do not receive any additional benefits.

Summary

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

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

Directors' Remuneration Report (continued)

Directors' Emoluments

	Salary and Fees	Performance Related Pay	Other Benefits	Total 2021	Total 2020
Non-Executive Directors					
J Hansen	£55,000	£-	£-	£55,000	£43,751
D Maddison	£30,000	£-	£-	£30,000	£21,688
A Phizacklea	£28,000	£-	£-	£28,000	£23,919
C Chappell (resigned 19 March 2020)	£-	£-	£-	£-	£5,549
C Gannon (resigned 19 March 2020)	£-	£-	£-	£-	£5,549
S Robinson (resigned 19 March 2020)	£-	£-	£-	£-	£5,549
A Alden	£30,000	£-	£-	£30,000	£25,404
P Austin (appointed 9 April 2020)	£30,000	£-	£-	£30,000	£18,948
R Willison (appointed 9 April 2020)	£30,000	£-	£-	£30,000	£18,948
Executive Directors					
C Marsh (resigned 14 July 2021)	£365,226	£-	£56,594	£421,820	£202,332
S Hayhurst (resigned 2 September 2021)	£82,116	£22,790	£24,946	£129,852	£167,121
G Spencer (appointed 13 July 2021)	£174,240	£-	£-	£174,240	£-
Total	**£824,582**	**£22,790**	**£81,540**	**£928,912**	**£538,758**

C Marsh's total remuneration includes £316,681 for payment in lieu of notice and compensation for loss of office in relation to his resignation from the business.

The amount disclosed in the table represents the amount that Health Shield Friendly Society Limited pay to Mutual Governance Limited in relation to the services provided by G Spencer.

Statement of Chief Actuary

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

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

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

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

The total fees payable to OAC for professional services during the year amounted to £109,087 (2020: £128,386).

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group’s and of the Society’s affairs as at 31 December 2021 and of the Group’s and Society’s surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992.

We have audited the financial statements of Health Shield Friendly Society Limited (the ‘Society’) and its subsidiaries (“the Group”) for the year ended 31 December 2021 which comprise the Consolidated Income and Expenditure Account, the Society Income and Expenditure Account, the Consolidated Statement of Comprehensive Income, the Society Statement of 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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit and Compliance Committee.

Independence

BDO LLP 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 3 years, covering the year ending 31 December 2021.

We remain independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or Society.

Conclusions relating to going concern

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

- Review and challenge of the Group's current plans and budgets, challenging growth assertions and ensuring that movements were in line with justifiable assumptions and movements; and
- Reviewing the basis of solvency projections for the next 12 months and ensuring that an appropriate mechanism for calculating solvency had been applied.

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

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

Overview

Coverage[1]	Health Shield Friendly Society subject to full scope audit by group engagement team, coverage of 98% (2020: 98%) of revenue and 100% (2020: 100%) of net assets.
Key audit matters	**2021** / **2020** Valuation of long-term business provision ✓ ✓ Valuation of owner occupied property ✓ ✓
Materiality	Group Financial Statements as a whole: £810,000 (2020: £830,000) based on 1.82% (1.75%) of Funds for Future Appropriation (FFA).

[1] These are areas which have been subject to a full scope audit by the group engagement team

An overview of the scope of the audit

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

We undertook a full scope audit of the Society. For the non-significant components, Medex Protect Limited and Prevent Limited, which together equate to 2% of group revenue (2020: 2%), we carried out analytical review procedures and audit of certain account balances and transactions. Our approach to the audit is risk based, with our audit work being tailored to ensure that sufficient assurance was gained for us to be able to give an opinion on the financial statements as a whole. Specific audit procedures were carried out on all risk areas identified, including the key audit matters detailed below, and on all material balances and classes of transactions. The audit team performed all aspects of the audit with the use of appointed experts in assessing insurance liabilities.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of Key Audit Matter		Procedures performed to address this risk
Valuation of Long-term Business provision The Group financial statements include a long-term business provision of £3.3 million (2020: £1.1 million), which represents the estimated costs of settling benefits and claims associated with mainly health cash plan. This is set out in further detail in Note 2 and Note 15.	We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's results and because of the degree of assumptions and estimation underpinning the calculation, which can be highly subjective.	In assessing the valuation of the Long-Term business provision, we performed the following procedures: • We engaged an independent external actuarial expert to report to us on the methodology and assumptions that underpin the calculation of the provision. When selecting our independent external actuarial expert we evaluated their independence, objectivity, and competence to provide the required audit support. • We have challenged the conclusions arrived at by our independent external actuarial expert and verified that processes are in accordance with both Technical Actuarial Standards (TAS) and industry practices. • We have obtained and reviewed the actuarial reports prepared by the Society's Actuarial Function Holder and our independent external actuarial expert and checked that all relevant judgements and estimates have been considered in forming our opinion. • With assistance from our independent external actuarial expert, we reviewed and assessed the assumptions using in the calculation of the Long-Term Business Provision to ensure these are reasonable and in line with acceptable parameters. • We tested the underlying data used by the Society's Actuarial Function Holder in their calculation of the Long-Term Business Provision to ensure the completeness and accuracy of the data inputs by matching to the Society's accounting records which we have tested on a substantive basis as part of our audit. Key observations: • We have not identified any matters to suggest that indicate the Long-Term business provision is unreasonably estimated in consideration of the key assumptions and judgements made.

Description of Key Audit Matter		Procedures performed to address this risk
Valuation of owner-occupied property As at 31 December 2021 the Group and Society recognised £2.7m (2020: £2.7m) of land and buildings disclosed in tangible fixed assets. This is set out in further detail in Note 1 and Note 10	We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's results and because of the degree of estimation underpinning the valuation of owner-occupied property.	In assessing the valuation of the owner-occupied property held at fair value, we performed the following procedures: • We obtained and reviewed the valuation report prepared by management's expert on 07/12/2021. We Evaluated the competence, capability and objectivity of management's expert. • We engaged directly with management's expert to discuss and challenge the assumptions used in the preparation of their valuation through comparison to corroborating evidence. • Evaluated the assumptions used by management and their property expert for the owner-occupied property. This included comparing assumptions used by management's property expert against published market benchmarks. We used internal real estate expertise to assess the appropriateness of the property valuation assumptions and approach used by management's expert and corroborated these assumptions with current market information. We evaluated their independence, objectivity, and competence to provide the required audit support. Key observations: • Based on the work undertaken, we gained assurance over the valuation of the owner-occupied property and the appropriateness of the methodology, assumptions and judgements used.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Society financial statements	
	2021 £ 000's	**2020 £ 000's**	**2021 £ 000's**	**2020 £000's**
Materiality	810	830	809	829
Basis for determining materiality	1.82% (1.75%) of fund for future appropriations We consider this to be the most relevant benchmark, as it reflects a key measure of the performance of a mutual friendly society and is used to assess the level of free reserves and in determining solvency.		99.88% (99.88%) of group materiality Calculated as a percentage of Group materiality for Group reporting purposes	
Performance materiality	527	540	526	539
Basis for determining performance materiality	65% of Materiality	65% of Materiality	65% of Materiality	65% of Materiality
	We selected 65% as this was reflective of our perceived risk of the financial statements containing misstatements, considering previous experience of this audit engagement.			

Reporting threshold

We agreed with the Audit Committee that we would report to them any misstatements in excess of £24,300 (2020: £24,900). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Friendly Societies Act 1992 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Friendlies Societies Act 1992 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Society and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
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 Friendlies Societies Act 1992 requires us to report to you if, in our opinion: • proper accounting records have not been kept by the Society, or • the Society's financial statements are not in agreement with the accounting records and returns; or • we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities Statement set out on page 19, 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 Group's and 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 Group or 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.

Extent to which the audit was capable of detecting irregularities, including fraud

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

- agreement of the financial statement disclosures to underlying supporting documentation;
- our responses to significant audit risks (including long-term business provisions and management override of controls) are intended to sufficiently address the risk of fraudulent manipulation. In particular we engaged an independent external actuary as auditor's expert to review the assumptions and methodology applied by the Society in the valuation of long-term business provisions to check the methods utilised are appropriate;
- we addressed the risk of management override of controls, including testing a sample of journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud;
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. We considered the significant laws and regulations to be the applicable accounting standards, Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA');
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) to identify any reports of fraud.

We communicated identified fraud risks throughout the audit team and remained alert to any indications for fraud throughout the audit. Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

DocuSigned by:
John Perry
CA5C6EBFF59947C...

John Perry (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

United Kingdom

6 April 2022

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 2021

	Note	2021 £	2021 £	2020 £	2020 £
Earned premiums					
Gross written premiums		39,507,759		40,487,568	
Outward reinsurance premiums		(33,928)		(36,864)	
Premiums written net of reinsurance		39,473,831		40,450,704	
Discounts allowed		(151,352)		(120,316)	
Change in provision for unearned premiums	8	(260,260)		303,744	
Net earned premiums	3		39,062,219		40,634,132
Investment income					
Bank interest		872		911	
Income from listed investments		708,365		695,363	
Gain from realisation of Investments		1,751,029		1,087,034	
			2,460,266		1,783,308
Unrealised loss on investments			(125,689)		(262,566)
Other income					
Commission income	3	435,723		456,418	
Fee income	3	331,431		197,055	
Government grant income	3	88,526		347,809	
			855,680		1,001,282
			42,252,476		**43,156,156**
Claims incurred					
Member benefits and claim costs			(25,340,421)		(21,569,607)
Change in other technical provisions					
Long-term business provision	15		(2,211,011)		1,756,683
Net operating expenses					
Operating expenses	6		(19,075,757)		(13,799,098)
			(46,627,189)		**(33,612,022)**
(Deficit) / surplus for the year pre tax expense			**(4,374,713)**		**9,594,538**
Tax expense	5		-		25,202
(Deficit) / surplus for the year			**(4,374,713)**		**9,569,336**

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 2021

	Note	2021 £	2021 £	2020 £	2020 £
Earned premiums					
Gross written premiums		39,507,759		40,487,568	
Outward reinsurance premiums		(33,928)		(36,864)	
Premiums written net of reinsurance		39,473,831		40,450,704	
Discounts allowed		(151,352)		(120,316)	
Change in provision for unearned premiums	8	(260,260)		303,744	
Net earned premiums	3		39,062,219		40,634,132
Investment income					
Bank interest		871		909	
Income from listed investments		708,365		695,363	
Gain from realisation of Investments		1,751,029		1,087,034	
			2,460,265		1,783,308
Unrealised loss on investments			(125,689)		(262,566)
Other income					
Government grant income	3	88,526		347,809	
			88,526		347,809
			41,485,321		**42,502,681**
Claims incurred					
Member benefits and claim costs			(25,340,421)		(21,569,607)
Change in other technical provisions					
Long-term business provision	15		(2,211,011)		1,756,683
Net operating expenses					
Operating expenses	6		(20,356,568)		(12,500,142)
			(47,908,000)		**(32,313,066)**
(Deficit) / surplus for the year pre tax expense			**(6,422,679)**		**10,189,615**
Tax expense	5		-		-
(Deficit) / surplus for the year			**(6,422,679)**		**10,189,615**

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 2021

	2021 £	2020 £
Surplus / (deficit) for the year	(4,374,713)	9,569,336
Other comprehensive income		
Revaluation of occupied land and buildings	2,750	-
Total comprehensive surplus / (deficit) for the year	(4,371,963)	9,569,336
Total comprehensive surplus / (deficit) attributable to:		
Owners of the parent	(4,371,963)	9,569,336

Society Statement of Comprehensive Income for the Year Ended 31 December 2021

	2021 £	2020 £
Surplus / (deficit) for the year	(6,422,679)	10,189,615
Other comprehensive income		
Revaluation of occupied land and buildings	2,750	-
Total comprehensive surplus / (deficit) for the year	(6,419,929)	10,189,615

Consolidated Balance Sheet

31 December 2021

	Note	2021 £	2020 £
Fixed Assets			
Intangible assets	9	390,132	3,303,301
Tangible assets	10	5,387,859	5,072,268
Investments	11	33,301,281	31,700,300
		39,079,272	40,075,869
Current Assets			
Stocks		6,393	8,234
Debtors	12	4,226,195	4,271,184
Cash & cash equivalents		8,781,084	9,397,644
		13,013,672	13,677,062
Creditors			
Amounts falling due within one year	13	(4,158,971)	(3,658,006)
Net Current Assets		8,854,701	10,019,056
Total Assets less Current Liabilities		47,933,973	50,094,925
Provisions for Liabilities	15	(3,292,020)	(1,081,009)
Net Assets		44,641,953	49,013,916
Reserves			
Fund for future appropriations		44,406,953	48,781,666
Revaluation reserve		235,000	232,250
		44,641,953	49,013,916

The financial statements of Health Shield Friendly Society (registered number 50F) were authorised for issue by the Board on 6 April 2022 and signed on its behalf by:

Julie Hansen – Member of the Board

Paul Austin – Member of the Board

Geoffrey Spencer - Interim Chief Executive

Society Balance Sheet

31 December 2021

	Note	2021 £	2020 £
Fixed Assets			
Intangible assets	9	-	2,058,125
Tangible assets	10	5,294,050	4,932,642
Investments	11	34,765,118	33,607,228
		40,059,168	40,597,995
Current Assets			
Debtors	12	4,086,156	6,398,669
Cash & cash equivalents		8,058,037	8,831,878
		12,144,193	15,230,547
Creditors			
Amounts falling due within one year	13	(4,036,738)	(3,453,001)
Net Current Assets		8,107,455	11,777,546
Total Assets less Current Liabilities		48,166,623	52,375,541
Provisions for Liabilities	15	(3,292,020)	(1,081,009)
Net Assets		44,874,603	51,294,532
Reserves			
Fund for future appropriations		44,639,603	51,062,282
Revaluation reserve		235,000	232,250
		44,874,603	51,294,532
Society's surplus / (deficit) for the financial year (entity only)		(6,422,679)	10,189,615

The financial statements of Health Shield Friendly Society (registered number 50F) were authorised for issue by the Board on 6 April 2022 and signed on its behalf by:

Julie Hansen – Member of the Board

Paul Austin – Member of the Board

Geoffrey Spencer - Interim Chief Executive

Consolidated Statement of Changes in Equity

for the Year Ended 31 December 2021

	Revaluation reserve	Fund for future appropriations	Total Equity
	£	£	£
Balance at 1 January 2020	232,250	39,212,330	39,444,580
Changes in equity			
Surplus / (deficit) for the year	-	9,569,336	9,569,336
Other comprehensive income	-	-	-
Total comprehensive income	-	9,569,336	9,569,336
Balance at 31 December 2020	232,250	48,781,666	49,013,916
Changes in equity			
Surplus / (deficit) for the year	-	(4,374,713)	(4,374,713)
Other comprehensive income	2,750	-	2,750
Total comprehensive income	2,750	(4,374,713)	(4,371,963)
Balance at 31 December 2021	235,000	44,406,953	44,641,953

Society Statement of Changes in Equity

for the Year Ended 31 December 2021

	Revaluation reserve	Fund for future appropriations	Total Equity
	£	£	£
Balance at 1 January 2020	232,250	40,872,667	41,104,917
Changes in equity			
Surplus / (deficit) for the year	-	10,189,615	10,189,615
Other comprehensive income	-	-	-
Total comprehensive income	-	10,189,615	10,189,615
Balance at 31 December 2020	232,250	51,062,282	51,294,532
Changes in equity			
Surplus / (deficit) for the year	-	(6,422,679)	(6,422,679)
Other comprehensive income	2,750	-	2,750
Total comprehensive income	2,750	(6,422,679)	(6,419,929)
Balance at 31 December 2021	235,000	44,639,603	44,874,603

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

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 nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 10 - 18.

The financial statements have been prepared under the historical cost convention, 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 2021 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 or sold are consolidated for the periods from or to 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 the ongoing COVID-19 pandemic and Brexit. On this basis the Board has a reasonable expectation that the Society has sufficient capital and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing these accounts. The Strategic Report provides further details of the Society's going concern assessment.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

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.

Grant income

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

Goodwill

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

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

Intangible assets

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

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

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

Tangible fixed assets

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

1. **ACCOUNTING POLICIES (continued)**

Owner occupied property

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

Investments

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

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

Financial instruments

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

1. **ACCOUNTING POLICIES (continued)**

Foreign currency

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

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

Taxation

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

Deferred tax

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

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

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

Cash and cash equivalents

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

Short-term debtors and creditors

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

Claims

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

Investment income

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

Stocks

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

Pensions

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

1. ACCOUNTING POLICIES (continued)

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.

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 the excess of assets over and above insurance contract liabilities.

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.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

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

Critical judgements in applying the Group's accounting policies

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

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

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

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

Key source of estimation uncertainty

The key source of estimation uncertainty is as follows:

Estimates of future benefit payments arising from long-term insurance contracts
The Society makes estimates of the expected number of claims for each of the years that it is exposed to risk.

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

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

Due to the long-term nature of these obligations, significant judgements (on areas such as morbidity and expense rates) have to be exercised in estimating the long-term business provision (LTBP). These are outlined in note 7. The impact of a 10% increase/decrease in morbidity would be to increase/decrease the LTBP by £2.0 million. The impact of a 10% increase/decrease in expense rates would be to increase/decrease the LTBP by £0.5 million.

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

3. INCOME

	2021 £	2020 £
An analysis of the Group's income by class and category is as follows:		
Net earned premiums from cash plan business	39,062,219	40,634,132
Commission income from insurance mediation	435,723	456,418
Fee income from health screening and occupational health programmes	331,431	197,055
Grant income	88,526	347,809
	39,917,899	41,635,414

All income relates to business written in the United Kingdom.

4. EMPLOYEES AND DIRECTORS

	Group		Society	
	2021 £	2020 £	2021 £	2020 £
(a) Employment costs, including Directors, during the year:				
Wages and salaries	6,223,059	5,690,541	6,019,940	5,405,549
Social security costs	782,884	674,979	734,019	642,971
Other pension costs - note 4 (d)	434,054	391,145	423,707	373,305
	7,439,997	6,756,666	7,177,666	6,421,825

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

	Group 2021	Group 2020	Society 2021	Society 2020
Administration	124	127	114	113
Claims	17	18	17	18
Acquisition	38	39	38	39
Total	179	184	169	170

(c) Aggregate emoluments of key management personnel:	2021 £	2020 £
Salaries and other emoluments	1,708,661	964,565
Pension contributions	132,272	96,412
	1,840,933	1,060,977
	Number	Number
Number of Directors who are members of a money purchase pension scheme	-	2
In respect of the highest paid Director:	£	£
Total emoluments	524,943	202,332

4. **EMPLOYEES AND DIRECTORS (continued)**

Included within the aggregate emoluments of key management personnel payments relating to compensation for loss of office of £476,111 (2020: nil).

(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 2021 was £79,528 (2020 - £62,607).

5. **TAXATION**

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

	2021	2020
Current tax:	£	£
UK corporation tax	-	(25,202)
Tax on loss	-	(25,202)

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:

	2021	2020
	£	£
Surplus / (deficit) before tax	(4,374,713)	9,544,134
Surplus / (deficit) multiplied by the standard rate of corporation tax in the UK of 19%	(831,195)	1,813,578
Effects of:		
Income not taxable	687,629	(1,899,578)
Increase in tax losses carried forward	143,566	86,193
Utilisation of loss relief	-	(25,202)
	-	(25,202)

‘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 2021

6. NET OPERATING EXPENSES

	2021	2020
	£	£
Acquisition costs	3,477,195	3,530,240
Administrative costs	15,489,897	10,171,710
Investment management expenses	108,665	97,152
	19,075,757	13,799,102

Net operating expenses includes the following:

Fees payable to the Society's Auditor for audit assurance services		95,304	93,480
Hire of equipment - operating leases		214,757	325,376
Commission		2,694,137	2,568,775
Actuary function holder's remuneration		109,087	128,386
Loss / (Profit) on disposal of fixed assets	10	360,000	(2,040)
Amortisation of goodwill	9	191,782	191,782
Depreciation of owned fixed assets	10	408,649	403,519
Amortisation of intangible assets	9	318,825	-
Impairment of intangible assets	9	2,370,020	-
Impairment of goodwill	9	663,262	-
Intercompany bad debt provision (Society only)	12	3,225,921	-

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

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.

Life business UK non-participating	31 Dec 2021 £	31 Dec 2020 £
Fund for Future Appropriations	44,639,603	48,781,666
Regulatory solvency adjustments	(2,307,977)	(4,653,708)
Total available capital resources (Solvency II)	42,331,626	44,127,958

Total available capital resources are 3.2 times (2020: 3.8 times) the Solvency II capital requirement (unaudited).

Management of risk

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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

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

Insurance risk

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

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

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

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

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

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

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

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

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Variable	Change in Variable	Change in LTBP £000s	Change in Available Capital £000s (Solvency II)
Morbidity	+10%	2,021	(2,021)
Morbidity	-10%	(2,011)	2,011
Interest	+1% per annum	(9)	(636)
Interest	-1% per annum	10	699
Expenses	+10%	513	(513)
Expenses	-10%	(512)	512
Contract Boundaries	+1 month	(194)	194
Contract Boundaries	-1 month	188	(188)
Mortality	+10%	(6)	6
Mortality	-10%	7	(7)

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

Market risk

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

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

Equity risk

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Property risk

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

Interest rate risk and asset liability matching

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

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

Sensitivity

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

The variables are:

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

31 December 2021	Equity prices		Fixed interest securities		Property values	
Impact on FFA	+10%	-10%	+25bp	-25bp	+20%	-20%
Total	**1,913,278**	**(1,913,278)**	**(158,965)**	**174,861**	**747,032**	**(747,032)**

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

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

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

Currency risk

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Fair Value Methodology

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. The tables below show the determination of fair value according to a three-level valuation hierarchy. Fair values are generally determined at prices quoted in active markets (level 1). Where such information is not available, the Society would apply valuation techniques to measure such instruments. These valuation techniques make use of market observable data for all significant inputs where possible (level 2). There are no assets or liabilities measured on this basis in either the current or the prior year. Where inputs for the assets or liabilities are not based on observable market data (that is unobservable), fair values are classified at level 3. There are no identified financial liabilities held at fair value within the Society and there are no non-recurring fair value measurements as at 31st December 2021 and 31st December 2020.

Society investments

Fair value measurement at December 2021	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial Assets	-	-	-	-
Listed Investments	39,651	-	-	39,651
Owner occupied property	-	-	3,515	3,515
Strategic Investments (subsidiaries)	-	-	1,464	1,464
Total	**39,651**	**-**	**4,979**	**44,630**

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

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

Strategic Investments are valued at cost less impairment.

There have been no transfers between levels 1, 2 and 3 during 2021.

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Counterparty risk

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

- Counterparty risk with respect to debt securities and cash deposits

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

31 December 2021	Amount not subject to credit risk £	Amounts subject to credit risk £	Balance sheet carrying value £
Shares and other variable yield securities	26,345,707	2,019,413	**28,365,120**
Debt and other fixed income securities	5,017,069	6,380,408	**11,397,477**
Cash at banks, building societies and in hand	-	1,708,030	**1,708,030**
Total	**31,362,776**	**10,107,851**	**41,470,627**

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

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 2021	AAA £	AA £	A £	Below A £	Unrated £	Total £
Shares and other variable yield securities	247,028	7,604	271	1,764,188	322	**2,019,413**
Debt and other fixed income securities	394	2,290	1,046,718	5,327,473	3,534	**6,380,409**
Cash at banks, building societies and in hand	-	-	887,714	-	820,316	**1,708,030**
Total	**247,422**	**9,894**	**1,934,703**	**7,091,661**	**824,172**	**10,107,852**

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

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Liquidity risk

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

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

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

Operational risk

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

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

Business risk

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

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

For the Year Ended 31 December 2021
7**. CAPITAL STATEMENT & RISK MANAGEMENT (continued)**

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 for Health Cash Plans are set out below:

Interest Rate (p.a.)	Cash flows are discounted according to the risk free curve provided by PRA
Mortality Rates	35% of AM/AFC00 Ultimate (1 January 2021 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 – Target loss ratio of 64.5% (1 January 2021 63.5%)

Persistency - an allowance is made for lapses within the valuation. An analysis of the recent lapse experience of the Society was undertaken and appropriate adjustments were made to the best estimate lapse assumption rates.

Interest Rates - interest rates are set in accordance to rates published by PRA as at 31 December 2021. The one-year spot rate as at 31 December 2021 was 0.758% 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 2021 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.

The Society has underwritten Medex policies on a non-life basis since 1 September 2021. A small technical provision of £0.3m was held in respect of this business, calculated using the appropriate non-life SII methodology.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

7. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Analysis of change

Basis	Change £000s	Available Capital £000s
1 January 2021 available capital resources		**44,128**
In force policy cashflows	552	44,680
Unwind of in force BEL	(83)	44,597
Cost of capital (unwind of risk margin)	10	44,607
Investment	2,226	46,833
Change in asset admissibility	(1,767)	45,066
Basis changes:		
- Expenses	(66)	45,000
- Claim rates (incl IBNP)	(543)	44,457
- Renewal commission	(10)	44,447
- Lapse rates	-	44,447
Change in current liabilities	(572)	43,875
Change in additional reserves for unintended surplus	(1,222)	42,653
Change in MedEx BEL	(296)	42,357
Reinsurance	(25)	42,332
31st December 2021 available capital resources		**42,332**

8. UNEARNED PREMIUMS

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

Group & Society	2021 £	2020 £
Balance at 1 January	179,567	483,311
Movement in unearned premium	260,260	(303,744)
Balance at 31 December	439,827	179,567

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

9. INTANGIBLE FIXED ASSETS

Group	Goodwill £	Intangible assets £	Intangible assets under construction £	Total
Cost				
At 1 January 2021	1,924,177	1,447,162	714,332	4,085,671
Additions for year	-	630,720	-	630,720
Transfers	-	714,332	(714,332)	-
At 31 December 2021	1,924,177	2,792,214	-	4,716,391
Amortisation				
At 1 January 2021	679,001	103,369	-	782,370
Amortisation for year	191,782	318,825	-	510,607
Impairment for year	663,262	2,370,020	-	3,033,282
At 31 December 2021	1,534,045	2,792,214	-	4,326,259
Net Book Value				
At 31 December 2020	1,245,176	1,343,793	714,332	3,303,301
At 31 December 2021	390,132	-	-	390,132

Society	Goodwill £	Intangible assets £	Intangible assets under construction £	Total
Cost				
At 1 January 2021	-	1,447,162	714,332	2,161,494
Additions for year	-	630,720	-	630,720
Transfers	-	714,332	(714,332)	-
At 31 December 2021	-	2,792,214	-	2,792,214
Amortisation				
At 1 January 2021	-	103,369	-	103,369
Amortisation for year	-	318,825	-	318,825
Impairment for year	-	2,370,020	-	2,370,020
At 31 December 2021	-	2,792,214	-	2,792,214
Net Book Value				
At 31 December 2020	-	1,343,793	714,332	2,058,125
At 31 December 2021	-	-	-	-

Intangible assets include software development costs of £2,792,214 (2020 - £2,161,494). Impairment charges of £2,370,020 (2020: nil) relate to software development programmes where the carrying value of assets held is unlikely to be recovered.

Goodwill impairment charges of £663,262 (2020 – nil) relate to the writing down of strategic investments to their recoverable value.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

10. **TANGIBLE FIXED ASSETS**

Group	Long Leasehold £	Improvements to Property £	Fixtures, Fittings, Equipment £	Computer Equipment £	Totals £
Cost or Valuation					
At 1 January 2021	2,667,250	1,226,496	653,573	3,637,900	8,185,219
Additions	-	177,693	21,438	882,359	1,081,490
Disposals	-	-	-	(360,000)	(360,000)
Revaluation	2,750	-	-	-	2,750
At 31 December 2021	2,670,000	1,404,189	675,011	4,160,259	8,909,459
Depreciation					
At 1 January 2021	-	372,295	606,772	2,133,884	3,112,951
Disposals	-	-	-	-	-
Charge for year	-	186,754	28,226	193,669	408,649
At 31 December 2021	-	559,049	634,998	2,327,553	3,521,600
Net Book Value					
At 31 December 2020	2,667,250	854,201	46,801	1,504,016	5,072,268
At 31 December 2021	2,670,000	845,140	40,013	1,832,706	5,387,859

Included in cost or valuation of long leasehold are buildings of £2,670,000 (2020 - £2,667,250) which is not depreciated.

Cost or valuation at 31 December 2021 is represented by:

	Long Leasehold £	Improvements to property £	Fixtures, fixtures, equipment £	Computer equipment £	Totals £
Valuation in 2021	2,670,000	-	-	-	2,670,000
Cost	-	1,404,189	675,011	4,160,259	6,239,459
	2,670,000	1,404,189	675,011	4,160,259	8,909,459

Properties were valued on an open market basis as at 31 December 2021, by Legat Owen Limited, 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 £2,670,000 (2020 - £2,667,250). If the properties were not measured under the revaluation model, their cost for use under the historic cost model would be £3,662,806.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

10. **TANGIBLE FIXED ASSETS (continued)**

Society	Long Leasehold £	Improvements to property £	Fixtures, fixtures, equipment £	Computer equipment £	Totals £
Cost or Valuation					
At 1 January 2021	2,667,250	1,226,496	634,826	3,382,231	7,910,803
Additions	-	177,693	21,438	860,948	1,060,079
Disposals	-	-	-	(360,000)	(360,000)
Revaluation	2,750	-	-	-	2,750
At 31 December 2021	2,670,000	1,404,189	656,264	3,883,179	8,613,632
Depreciation					
At 1 January 2021	-	372,295	588,824	2,017,042	2,978,161
Disposals	-	-	-	-	-
Charge for year	-	186,754	28,225	126,442	341,421
AT 31 December 2021	-	559,049	617,049	2,143,484	3,319,582
Net Book Value					
At 31 December 2020	2,667,250	854,201	46,002	1,365,189	4,932,642
At 31 December 2021	2,670,000	845,140	39,215	1,739,695	5,294,050

11. **FIXED ASSET INVESTMENTS**

Group	Listed investments £
At 1 January 2021	31,700,300
Additions	8,257,743
Disposals	(6,541,864)
Revaluations	(114,898)
At 31 December 2021	33,301,281

Cost or valuation at 31 December 2021 is represented by:	Listed investments £
Valuation in 2021	33,301,281

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 2021

11. FIXED ASSET INVESTMENTS (continued)

Society	Shares in group undertakings £	Listed investments £	Totals £
Cost or Valuation			
At 1 January 2021	2,000,948	31,700,300	33,701,248
Additions	-	8,257,743	8,257,743
Disposals	-	(6,541,864)	(6,541,864)
Revaluations	-	(114,898)	(114,898)
At 31 December 2021	2,000,948	33,301,281	35,302,229
Impairment			
At 1 January 2021	94,021	-	94,021
Impairment loss for year	443,090	-	443,090
At 31 December 2021	537,111	-	537,111
Net Book Value			
At 1 January 2021	1,906,927	31,700,300	33,607,227
At 31 December 2021	1,463,837	33,301,281	34,765,118

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

The historical cost of listed investments was £27,730,783 (2020: £25,161,411)

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

11. FIXED ASSET INVESTMENTS (continued)

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

Subsidiary

Prevent Limited

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

iHealth System Limited

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

Medex Protect Limited

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

Health Shield Wellbeing Limited

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

Health Shield Insurance Services Limited

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Society	
	2021	2020	2021	2020
	£	£	£	£
Trade debtors	3,741,756	3,742,572	3,596,955	3,564,275
Amounts owed by Group undertakings	-	-	10,674	2,311,023
Other debtors	79,848	26,217	78,883	26,201
Prepayments and accrued income	404,591	502,395	399,644	497,170
	4,226,195	4,271,184	4,086,156	6,398,669

The reduction in amounts owed by Group undertakings in the Society accounts is driven by the intercompany bad debt provision (see note 6).

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Society	
	2021	2020	2021	2020
	£	£	£	£
Trade creditors	231,837	327,577	214,311	308,408
Social security and other taxes	1,542,450	1,376,911	1,530,790	1,371,739
Other creditors	24,311	6,940	17,373	-
Accruals and deferred income	1,623,057	1,458,610	1,536,948	1,284,886
Defined contribution pension	79,528	62,607	79,528	62,607
Provision for unearned premiums	439,827	179,567	439,827	179,567
Payments in advance	217,961	245,794	217,961	245,794
	4,158,971	3,658,006	4,036,738	3,453,001

14. FINANCIAL COMMITMENTS

Operating leases

Minimum lease payments fall due as follows:

	Non-cancellable operating Leases	
Group	2021	2020
	£	£
Within one year	38,908	28,062
Between one and five years	168,679	297,314
	207,587	325,376

The operating leases relate to motor vehicles and office equipment.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

14. FINANCIAL COMMITMENTS (continued)

Other financial commitments

Group	2021 £	2020 £
Within one year	1,224,856	1,689,611
Between one and five years	169,511	781,887
	1,394,367	2,471,498

15. PROVISIONS FOR LIABILITIES

	Group		Society	
	2021 £	2020 £	2021 £	2020 £
Long-term business provision (LTBP)	3,292,020	1,081,009	3,292,020	1,081,009
	3,292,020	1,081,009	3,292,020	1,081,009
Aggregate amounts	3,292,020	1,081,009	3,292,020	1,081,009

Group	LTBP £
Balance at 1 January 2021	1,081,009
Movement in year	2,211,011
Balance at 31 December 2021	3,292,020

Society	LTBP £
Balance at 1 January 2021	1,081,009
Movement in year	2,211,011
Balance at 31 December 2021	3,292,020

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2021

16. **CONTINGENT LIABILITIES**

At the year ended 31 December 2021 the company had no potential future liabilities in respect of the purchase of Prevent Limited (2020 £250,000). At the year end 31 December 2021 there are no contingent liabilities.

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.

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