HEALTHSHIELD
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2018 Annual Report and Accounts
Health Shield Friendly Society Ltd

Year ended 31 December 2018

Contents

Board of Health Shield Friendly Society Ltd

Chairman of Board:

Mr. D Allen

Deputy Chairman of Board:

Mr. AE Phizacklea

Senior Independent Director:

Ms. J Hansen (subject to regulatory approval)

Executive Directors:

Mr. CC Marsh (Chief Executive)

Mr. PJP Wood (Director of Sales)

Non-Executive Directors:

Mr. D Allen

Mr. MCL Carpenter CB

Mr. D Maddison

Mr. AE Phizacklea

Mr. CI Chappell

Ms. J Hansen

Ms. CM Gannon

Mr. S Robinson

Mrs. A Alden

Life President:

Mr. JA McKinnell MBE

Honorary Medical Consultant:

Dr. R Preece, Leighton Hospital, Crewe

Auditor:

Deloitte LLP
Chartered Accountants and Statutory
Auditor
Manchester

Bankers:

Barclays Bank Plc
Crewe

Investment Managers:

Investec Wealth & Investment Ltd
Sheffield

Chief Actuary:

Mr. SK Grout
Oliver Wyman
Leatherhead

Board of Health Shield Friendly Society Ltd

David Allen

Chairman

David was appointed to the Board in 1994 and became Chairman in 2001. He is a member of the Business Delivery and Investment, Risk Management and Nomination and Remuneration Committees. David is a qualified accountant with extensive experience in corporate finance, financial and management accounting, business strategy, corporate insurance and corporate governance having served on numerous boards including pensions, insurance and claims, hotels, managerial and technical training, wagon and rolling stock provision, charities and charitable trusts. He had a long and successful career in the railway industry, ultimately becoming Director of Finance at the British Railways Board before leaving to prepare Railtrack for privatisation as a Director and its Group Controller. He has also worked in international consultancy for many years.

Courtney Marsh

Chief Executive

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

Alan Phizacklea

Deputy Chairman

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

Philip Wood

Executive Director

Philip joined Health Shield in 1990 and was appointed as an Executive Director in 2005. He is an attendee of the Business Delivery and Investment Committee. Philip is a Fellow of the Chartered Institute of Marketing and has significant senior experience of leading sales and marketing functions. He is the Executive Director of Sales and provides leadership and support for the sales, membership and retention teams. During his time at Health Shield, his roles have also included Marketing Director and National Sales and Marketing Manager which enabled him to develop an in-depth knowledge of the cash plan and broker markets.

David Maddison

Non-Executive Director

David was appointed to the Board in August 2012. He is Chairman of the Business Delivery and Investment Committee and a member of the Nomination and Remuneration Committee. David is a Fellow of the Pensions Management Institute with an LLB degree in Law, Associate of the Chartered Insurance Institute and a Chartered Director of the Institute of Directors. He is Managing Director Scheme and Deputy CEO for RPMI (the Executive Arm of the Railways Pension Trustee Company Limited) with direct responsibilities covering trustee and governance services, pensions policy, employer covenant and the integrated risk management of the Railways Pensions Scheme. David is also a Trustee of the People’s Pension.

Christopher Chappell

Non-Executive Director

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

Julie Hansen

Senior Independent Director (subject to regulatory approval)

Julie was appointed to the Board in June 2015. She is the Senior Independent Director and a member of the Nomination and Remuneration and Business Delivery and Investment Committees. Julie has over 20 years' experience in the financial services sector with significant experience in assisting companies to develop and enhance their products, services and distribution channels. She is currently Director of Distribution for Unity Mutual UK, with responsibility for the development and implementation of an agreed multi-channel distribution strategy. She has previously held the roles of Head of Sales at Shepherds Friendly Society, Sales Director at Financial Advice Network UK Limited and set up her own management consultancy. Julie was also subsequently a Non-Executive Director at Financial Advice Network UK Limited.

Michael Carpenter CB

Non-Executive Director

Michael was appointed to the Board in 2003. He is Chairman of the Nomination and Remuneration Committee and a member of the Audit Committee. Michael was called to the Bar in 1971 and held a number of posts in the European Commission, the Government Legal Service and the House of Commons, which involved complex international negotiations and frequent contact with ministers. He was also appointed by the Secretary of State for Transport to be a member of the 1994 Pensioners Section of the Railway's Pension Trust.

Cecilia Gannon

Non-Executive Director

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

Scott Robinson

Non-Executive Director

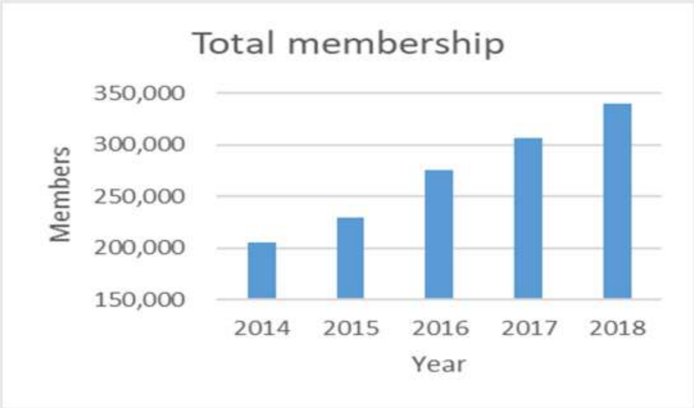
Scott was appointed to the Board in July 2017. He is a member of the Audit and Business Delivery and Investment Committees. Scott is a Fellow of the Institute and Faculty of Actuaries and has worked with Friendly Societies and insurers for over 25 years, both in industry and as a consultant. He is the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

Alison Alden

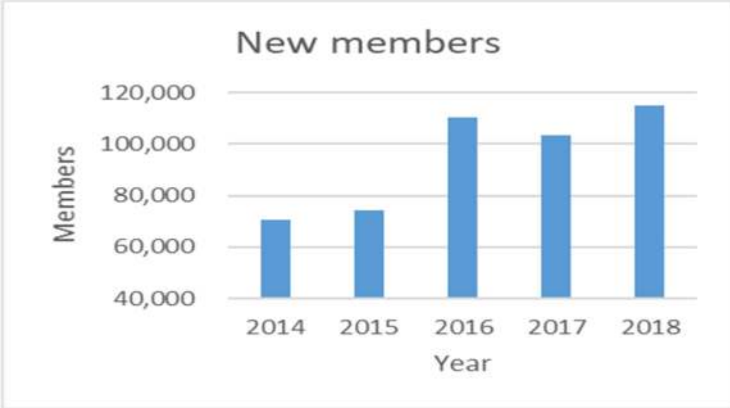
Non-Executive Director

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

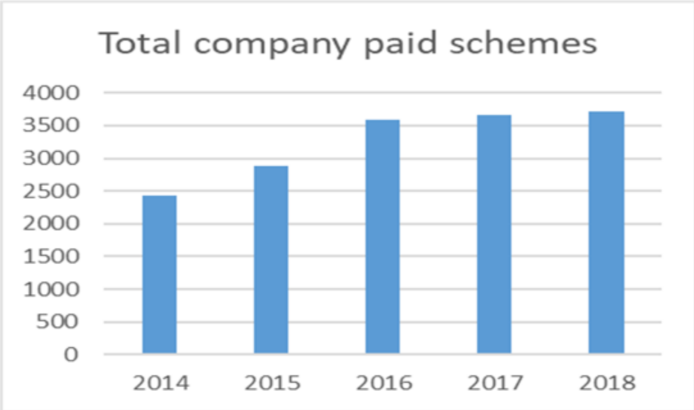
Key Results at a Glance



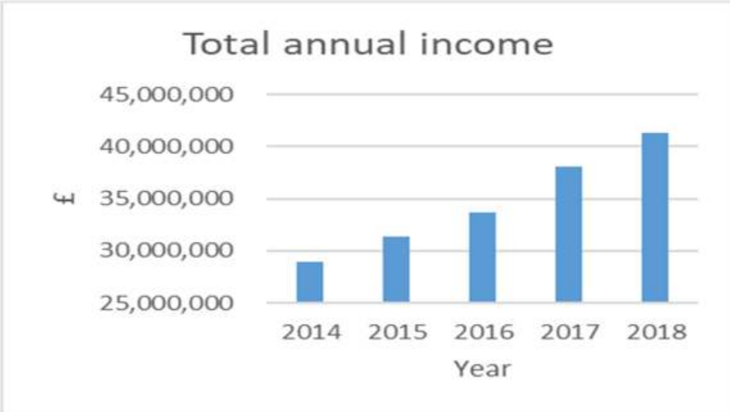
Movement year-on-year = +11%



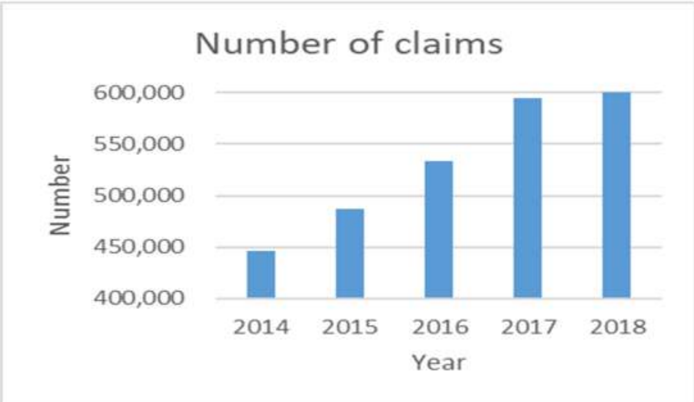
Movement year-on-year = +11%



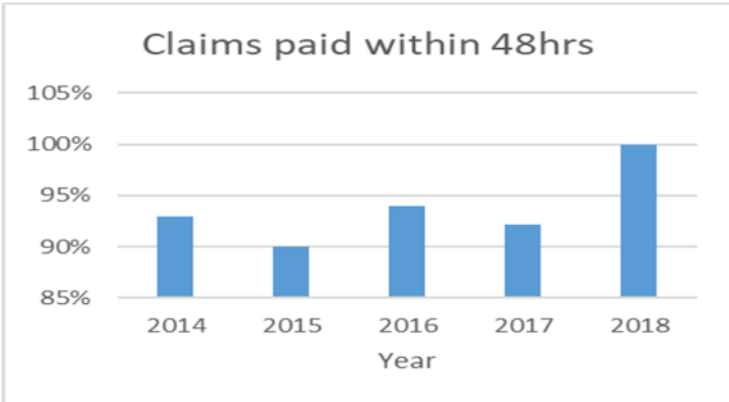
Movement year-on-year = +1%



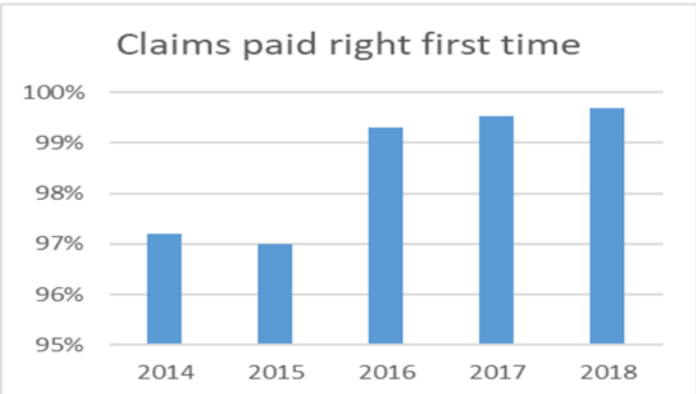
Movement year-on-year = +8%



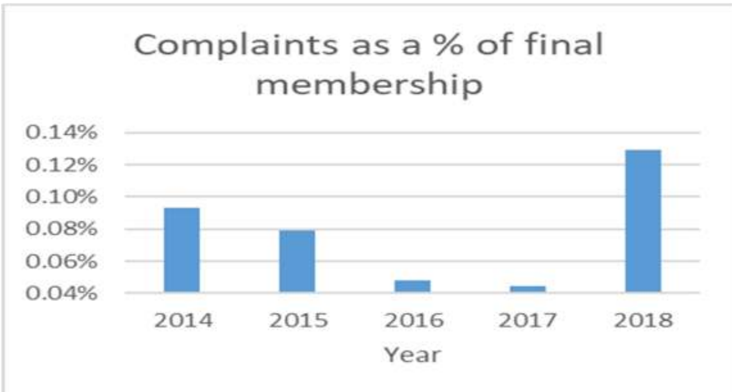
Movement year-on-year = +4%



Movement year-on-year = +8%



Movement year-on-year = +0.2%



Movement year-on-year = +190%

Chairman’s Report

Introduction

It is always a privilege to present the Annual Report and Accounts for Health Shield Friendly Society though it is touched with sadness on this occasion. 2018 started with the tragic loss of our much loved Chief Executive, Jonathan Burton. At last year’s AGM, the Board, team members and delegates paid full tribute to Jonathan and the enormous contribution which he made over his 26 years with the Society, 17 of these as Chief Executive. He was a major driving force in the growth and success of the Society, overseeing its recovery from decline following privatisation of the railways, our principal area of membership at the time, to the award-winning company we are so proud of today. He will be sorely missed and we owe him a great debt of gratitude.

As we have come to expect of this remarkable organisation, however, the response was immediate and resolute and our longstanding pattern of year-on-year growth was delivered once again and, at the same time, our strategy of diversification into new markets took hold.

Cash Plan Market

The cash plan market remained extremely competitive with significant ongoing price pressure, exacerbated by a further IPT rise in 2017. Nevertheless, as noted above, the Society continued to grow its business and achieved impressive year-on-year growth of 8% in gross premium income. This is the 18th year in succession that we have increased our premium income and the Society now stands as the joint third largest cash plan provider.

We have maintained our philosophy of ensuring that a significant proportion of premiums are returned to members through claims and member services. This was 79.3% in 2018 (2017 – 81.0%).

The pursuit of innovative products, to enhance the cash plan and deliver further value to existing and new customers, was continued throughout the year. In particular, the growing recognition across employers of the need to support the mental health of their employees, led the Society to partner with a company called Thrive. As a result, access to their market-leading mental health app is now a part of the cash plan.

New Markets

One of the key strategic objectives of the Society is to reduce its dependence on a single product and the risks associated therewith, by diversifying into wider product areas. This is consistent with its vision of being a leader in the health and wellbeing market.

The Society began this transition in 2017 through the purchases of Prevent and Medex Protect, though their integration has not been without its challenges. Regulatory permissions for the sale of Medex Protect products had to be sought and the Society’s main route to market did not have quite the facility anticipated for the sale of Prevent products. This impacted planned performance for both. Medex Protect products could not be sold as planned and, whilst revenues for Prevent increased by 18% year-on-year, this was behind expectations.

Once full integration has been achieved in 2019, with plans in place to expand the routes to market and address issues within the distribution channels, the drive for growth and increased performance can begin in earnest. The Society has every confidence that both Prevent and Medex Protect will achieve anticipated levels of performance and add significant value to our drive for entry into the Health and Wellbeing market.

Chairman’s Report (continued)

Economy

The UK economy suffered its lowest level of annual growth since the financial crisis, with continuing uncertainty surrounding the impact of Brexit. As a UK focused business, the Society anticipates minimal direct impact from Brexit though the attendant uncertainty across the economy has added to the price sensitivity of products and created a challenging environment for generating new business.

Financial markets across the globe also faced a difficult year, achieving their worst performance in ten years. Losses were felt across all market sectors along with extreme volatility throughout the year. This has resulted in poor investment performance throughout the majority of 2018, in particular within equity investments, which saw a net performance for the year of -7.3%. The poor investment performance has seen a year-on-year swing in the income and expenditure account of the Society of £4.2m (2017 saw investment returns of +£3.3m whereas 2018 was -£0.9m). Whilst this kind of volatility and its consequent distortion of the figures and trends is not desirable, it is not that uncommon either. What is important to note is that the Society has both the financial strength in reserves and the financial management capacity to cope with such perturbations.

Corporate Governance

The Board believes that it is of the upmost importance how the Society achieves its strategic goals and is therefore committed to ensuring that the organisation adheres to the highest standards of corporate behaviour. To this end, the Society has adopted the AFM’s Annotated Combined Code for Mutual Insurers in the development and application of its Corporate Governance Framework.

Part of my role as Chairman is to ensure that the Board is made up of people with an appropriate range of skills and experience in order to develop and oversee delivery of the Society’s strategies and plans. As part of this and as previously reported, a Board refreshment programme was commenced two years ago and this will be completed during 2019. This programme has provided a seamless transition in terms of Board effectiveness, skills and capacity, a continuity of vision and values, and a renewed energy and challenge to drive and support the Society over the coming years.

The Chairman and the Board confirm that the Annual Report and Accounts present a fair, balanced and understandable assessment of the Society’s position and prospects and that there has been no material breach in internal controls during 2018.

Risk Management

The Society’s risk management framework adopts a forward looking approach that seeks to anticipate risks, to the furthest extent possible, that might arise as part of its chosen strategy.

Investment in a digital change programme is a critical component of the strategic plan and this inherently carries an increased level of operational risk that must be managed. Equally, from a macroeconomic perspective, the United Kingdom’s exit from the European Union brings with it risk and uncertainty. Whilst the Society is not directly exposed, the associated political unrest could have far-reaching implications for all UK businesses. These risks and others are discussed in the Strategic Report on pages 10 - 18. The Society’s risk framework requires that rigour is applied to identifying, understanding and, where possible, mitigating risks. These are, in turn, challenged by the Risk Management Committee with final review at the full Board.

Chairman's Report (continued)

Staff

It is important to place on record the Board's gratitude to the team, at every level, for managing the enormous gap created by the loss of their leader and CEO. This would have been difficult in any year but, at a time of major strategic, organisational, structural and process change, it has been a truly remarkable achievement. On behalf of the Board, I would like to say a massive thank you!

The success of the Society has always been down to the creativity, hard work and dedication of its employees. Their commitment to, and passion for customer excellence has made Health Shield what it is, a successful, multi award winning Society (winner of all five of the major industry awards in 2018) and a great place to work.

Future Developments

As mentioned above, the Society has a key strategic aim to diversify into other areas of the Health and Wellbeing market. Beyond the purchase of Prevent and Medex Protect, the Society is busy developing new products and services and expanding its distribution channels. Elements of these developments are expected to come to fruition during 2019 and continue to evolve over a number of years, broadening the Society's base and producing business growth for the future.

The Society is also investing in its IT systems and operational processes. This will improve controls and efficiencies and enhance the customer experience and interface with the Society and its products and services. It will also help to attract new clients and retain existing clients. A key part of this project will be the automation of internal processes which will have the additional benefit of making the Society more scalable to future membership growth. This major investment project has already commenced and is expected to last for three years.

This investment was a factor in the Society making a deficit of £4.8m for the year (2017 - £3.6m). The disappointing investment performance (£4.2m worse than 2017) and slower than expected growth of Prevent and Medex Protect (see above for further details regarding all these aspects) also contributed to this year's performance.

Historically, the Society has built up strong financial reserves which has enabled it to invest in such projects, and also through further investments, to develop its business over the coming years. This will allow the Society to secure its position in the market, broaden its product offering even further and set it up for an even brighter future.

Thanks

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

Signed on 4 April 2019

David Allen

Chairman

Strategic Report

Stakeholder Strategy Model

Health Shield developed its new strategy in 2018 with a focus on the health and wellbeing market. The overall aim has not changed - a commitment to excellent customer service and operating in the best interests of all our stakeholders. However, the Society has looked at how it wishes to treat each of its key stakeholders.

Stakeholder	Aim	Overview
Members	Encourage members to take better care of their health and finances	The Society is run for its members and should reward being a member of the Society. Our products should be simple and have no barriers to use. Working capital will be used in the best interests of members and the Society will remain financially strong in line with its risk appetite
Staff	Engage and empower Health Shield employees	Employee engagement benefits everyone involved with our business by creating an informed, involved and productive workplace, taking particular care of his or her health and wellness. Empowering the team to make decisions and contribute to change helps propel our business towards its strategic goals. Our employees become the driving force and advocates for our products
Corporate Clients	The health of a business is inextricably linked to the health of its employees	The Society will provide products that allow businesses to improve the health of their employees which in turn creates a healthy business. We will develop pathways and solutions in order to offer the most suitable products based on the clients' needs
Brokers and distributors	Leveraging existing relationships to distribute new products	We want to communicate effectively, identifying and anticipating intermediary needs, and to develop closer mutually sustainable business relationships. Our products will continue to be innovative and market leading and we will identify any service and process improvements
The Community	Responsibility to improve the local community	Health Shield has long been known as an employer of choice in the Crewe area. Our aim is to build more relationships in the local area, working with schools, businesses and charities as part of our wider Corporate Social Responsibility policy
Society	Responsibility to bring benefits to broader society	Apart from the local community, Health Shield wants to bring benefits to the wider society. Our products help create a healthier society. However, we also pay at least the living wage and have minimum ethical standards for suppliers. Health Shield wishes to partner with universities / research centres / start-ups to look into developing and investing in products or new start-up businesses linked to our vision.
Regulator / Tax / Trade Bodies	Maintain the highest standards in our conduct with other third parties	Health Shield will maintain high standards of business conduct and meet our obligations. We want to be an active participant with trade bodies promoting and contributing to the concept of mutuality for the benefit of members

Strategic Report (continued)

There are a number of key parts to delivering the strategy:

Rebrand and values

The Society is developing a new brand to be launched in 2019. The brand has been built around the Society's core and extended values:

Core

- Member-focused
- Always listening
- Continually improving

Extended

- Caring
- Clear
- Easy to use
- Human
- Fun

Health Shield wants to help people lead healthier, happier, more productive lives. We want to be personable and friendly, traditional yet technological, good to members and customers alike and inclusive. We will offer products that provide better healthcare all round, with services that keep companies and their staff in optimum health.

Sales and retention strategies

The Society has been very successful at creating organic growth over the last decade. It has built up strong relationships with intermediaries and clients, which has led to numerous industry awards. However, the Society is always looking for ways to improve and is performing a full review of its sales and retention processes. It will look at existing and new sales channels with the aim of increasing sales and improving retention rates.

Product development

As reported in last years' accounts, the Society completed two acquisitions which has allowed us to offer our clients and members a wider range of products. This theme will continue in 2019 with the Society developing new products and services and actively looking at further acquisitions that fit with our vision to help people lead healthier, happier, more productive lives.

Going digital

The Society plans to invest significantly in its IT systems and processes over the next three years. Processes will be automated where possible and we want members to have easy access to products and services through our website or mobile applications. The key aim is to improve the overall customer experience, which will help retain members and clients and allow us to provide engaging content and services to allow members to manage their own health.

Keep staff motivated and engaged

We recognise that our people are integral to our success – healthy employees create a healthy business. It is vital therefore that we continue to develop them to meet the requirements of the business. In our experience, we have found that satisfied employees play a key role in our organisation. They act as ambassadors of the Society, actively promoting and supporting our strategy and brand. We make sure that our staff are both engaged and satisfied and this is rewarded through a high level of commitment and loyalty.

Strategic Report (continued)

Manage capital in line with risk appetite

The Society is in a strong financial position as demonstrated in its latest Solvency and Financial Condition Report. The Society has set its risk appetite Solvency Capital Requirement (SCR) coverage and wants to remain above this level in the long-term. Although the Society is making losses at present, the Society's SCR coverage is above its appetite and is expected to remain above this level in the longer-term, even allowing for the investment in the business.

The strategy is seen as both viable and sustainable by looking at the long-term interests of all stakeholders. The digitisation of the Society's key processes will ensure it is run efficiently and financial goals have been set to maintain the financial strength of the Society.

Our management team works hard to manage the operational and strategic risks faced by the Society and works closely with the Risk Function in developing mitigating actions for the key risks.

Business review

The cash plan market is extremely competitive and highly price sensitive. This combined with a slowing of economic growth as a result of Brexit uncertainty, resulted in a challenging environment for the Society in 2018. Consequently, further year-on-year growth in cash plan income (7.0%) was an excellent performance. Income for the Group increased by 8.5% compared to 2017 as a result of an increase in Prevent's fee income (17.9% year-on-year growth) and Medex Protects income being consolidated for the full year (the two months after acquisition were consolidated in 2017).

The Society maintained its objective of returning a high proportion of premiums to members with £31.7m being paid out in member benefits and claims costs. This accounts for 79.3% (2017- 81.0%) of premium income.

As noted above, the Society has embarked on an exciting new strategy to diversify its product offerings into the wider health and wellbeing market alongside digitising its systems and processes. These changes will ensure that the Society has the correct products and business systems in place to enable it to continue its impressive recent growth record into the future. Realisation of these strategic objectives requires significant investment, which commenced in 2017 and has continued in 2018. Consequently, operating expenses have grown to 35.7% of total income (2017 – 33.3%).

The Society's investments have performed poorly during 2018 as global financial markets have seen their worst performance in a decade. This resulted in investment income of -£951k for 2018 compared to +£3.3m in 2017. Further details regarding the Society's investments follow later in the strategic report.

The above performance results in the Society's deficit increasing from -£3.6m in 2017 to -£4.8m in 2018, with the key factors being the reduction in investment returns and the growth in operating expenses in order to deliver the new strategy.

The Society has actively decided to undertake heavy investment (in both people and technology) in order to deliver the new strategy and is therefore anticipating operating deficits to be made in the short-term.

However, these short-term deficits are considered necessary in order to modernise the Society's proposition and extend its reach into the wider health and wellbeing market which is becoming a key focus for employers and individuals. This will ensure that the Society is set for an even brighter future over the long-term.

The results for the year are shown in detail in the Income and Expenditure account on page 45.

Staff

Health Shield aims to be an employer of choice in the local area, enabling it to attract and retain high quality staff who will ensure that the Society achieves its goal of providing a market leading level of customer service to its members. This is achieved by providing a healthy and productive environment for all employees and promoting equality of opportunity throughout the organisation.

Strategic Report (continued)

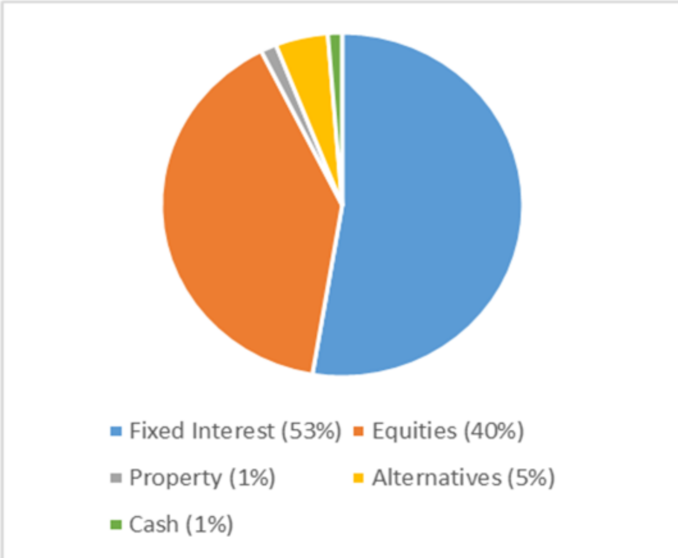
The Society provides competitive salary packages which include gross pay, bonuses and an extensive benefits package which are regularly benchmarked to ensure they remain competitive.

The Society is committed to developing its people to ensure they achieve their full potential within the Society and all staff agree an annual personal development plan along with having access to a range of training resources. Corporate briefings are also provided to all staff to ensure that everyone is aware of current performance levels, risks facing the Society and any changes in strategic direction.

The Board and Executive would like to thank the team for their dedication and professionalism which has helped the Society grow to its current size and status.

Investments

The breakdown of the Society's portfolio as at 31 December 2018 is shown in the chart opposite:



Investment markets faced a difficult year in 2018 with a lack of market confidence and extreme volatility across the year. The fourth quarter in particular proved to be a dismal one for investors with many leading equity indices showing falls of 20% or more from their peaks. Trade wars, Brexit and uncertainty over future global growth prospects all played a part in changing investor sentiment.

Fixed interest markets were flat over the year with the Society's fund showing a net return of -0.3% compared to a benchmark return of +0.1%.

The rise in volatility throughout financial markets caused a difficult period for global equity markets which resulted in the Society's equity fund showing a net return for the year of -7.3% compared to a benchmark return of -6.7%.

Alternative assets proved to be the best performing asset class generating an annual net return of +5.4% compared to a benchmark of +2.6%.

These combined to give the Society's portfolio an overall annual net performance of -2.7% compared to a benchmark return of -1.9%.

The key investment risks faced included:

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

We have decided not to perfectly match assets with liabilities but continue to hold a diversified portfolio across a range of asset classes and terms.

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.

Strategic Report (continued)

Information Technology

The IT systems and services within the Society have undergone a significant review in order to ensure they are sufficient to meet the future needs of the Society. A new IT strategy was approved by the Board during 2018 which will lead to significant investment over the next few years in order to deliver a major digital transformation. This will involve looking at automation to embrace online solutions, new technologies and to optimise the operational working processes in order to deliver a streamlined member experience.

Underpinning the transformation will be a 'Digital First' approach and the introduction of a new Digital Operating Model.

- Digital Operating Model – ensuring a strong digital operating model is in place will allow the Society to achieve greater agility, speed to market and deliver innovation at scale. This will improve the sales and customer experiences whilst keeping a strong focus on reducing cost.
- Online – the Society's online offering across its product range will be improved with a stronger focus on the member and broker, providing the ability to self-serve at a time that suits the member, broker or employer on a device chosen by them.
- IT infrastructure – this covers all operational aspects of the infrastructure from the phone system, data centres and hosting environments through to the software and applications that are used on a day to day basis.

Key Performance Indicators 2018

The Key Performance Indicators shown in the table below have been selected because they form a central part of the Society's balanced scorecard. By monitoring these indicators, it helps the Society to ensure that its strategy is kept on track, therefore achieving the desired business objectives.

Financials	**2018**	**2017**	**Movement**
Total Income	£41.3m	£38.1m	+8%
Operating costs %	36%	33%	+3%
Balance sheet net assets	£40.2m	£45.0m	-11%
Membership	**2018**	**2017**	**Movement**
Number of new members processed by the Society	115k	103k	+11%
Total number of contributing members in force	340k	307k	+11%
Members retaining membership throughout the year	79%	78%	+1%
Total number of company paid schemes	3,707	3,660	+1%
Claims	**2018**	**2017**	**Movement**
Number of claims paid	620k	594k	+4%
Average claim value	£49	£49	0%
Claims paid within two working days	99.9%	92.0%	+8%
Customer Service	**2018**	**2017**	**Movement**
Customer satisfaction rating regarding claims – Likert scale measurement (out of 5)	4.55	4.60	-1%
Complaints as a % of final membership	0.130%	0.045%	+190%
Solvency II	**2018**	**2017**	**Movement**
SCR coverage	390%	383%	+7%

Strategic Report (continued)

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

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 contributing members in force – number of active members as at the year-end date
- Members retaining membership throughout the year - percentage of members that were active at the start of the year and still are at the end of the year
- Total number of company paid schemes – number of corporate funded schemes as at the year-end date

Claims

These metrics provide details of the claims experience as this is of key importance to the membership base:

- Number of claims paid – total number of claims settled to members during the year
- Average claim value – average value for the year of all claims payments made
- Claims paid within two working days - percentage of all claims settled that were made within two working days of receipt by the Society

Customer Service

These metrics show how satisfied the membership base is with the service received from the Society:

- Customer satisfaction rating for claims – satisfaction score obtained from issuing member surveys. Score based on the Likert scale (out of 5)
- Complaints as a percentage of final membership – total number of complaints received during the year as a percentage of active members at the year-end date

Solvency II

These metrics provide details of the Society's available capital resources compared to Solvency Capital Requirements (SCR):

- SCR coverage – The Society's capital coverage compared to the basic SCR requirements of the EU's Solvency II Directive

Treating Customers Fairly

The Society is firmly committed to treating its members fairly and has developed ten guiding Conduct of Business Principles. These are instilled into all of the Society's staff through induction training upon commencement of employment and regular ongoing staff training. The principles are to:

- Put the member first in everything we do
- Strive to identify members' needs
- Devise products that meet these needs
- Not provide staff with incentives that may risk a member being sold an unsuitable product
- Be open and clear in all our dealings with our members and not to hide behind small print
- Be courteous, responsive and consistent
- Always listen to what our members have to say
- Keep members informed of any product changes
- Deal with any complaint promptly and impartially
- Treat our members how we would want to be treated ourselves

Strategic Report (continued)

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 8 of the Notes to the Accounts on pages 58 - 65 includes the Society's policies and processes for managing its capital and financial risks.

As detailed in the Business Review above, the Society has made the decision to embark upon a new strategy which requires heavy investment in the short-term and has resulted in a deficit being made. The new strategy will, amongst other things, diversify the Society's product range into growing markets and enhance customer experience thereby enabling much greater growth into profitable markets in the future, resulting in a return to profitability within a three to five-year time frame.

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

- Review of the Society's five-year business plan together with rigorous scrutiny and sensitivity analysis using the capital model
- Assessment of the results arising from the Society's Own Risk and Solvency Assessment report (ORSA)
- Ongoing consideration of the Society's strategic and operational risks

The assessment confirms that there is a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Society will continue to adopt the going concern basis for the preparation of the annual report and accounts.

Longer Term Viability Statement

The Board has assessed the Society's viability over a five-year period to December 2023. 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 reasonable scenarios, supported by 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 robust capital 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 and correspond to the Society's principal risks:

- Premium and benefit variances (insurance risk) – 10 sensitivities were run which included changing assumptions for claims inflation, claims ratios, premium targets and premium inflation.
- Expense variances (insurance risk) – 9 scenarios including changing assumptions for administration and acquisition expenses, staffing requirements and expense inflation.
- New business variances (insurance risk) – 10 sensitivities including changing assumptions for new business targets, levels of brokered business and age profiles.
- Lapse rate variances (insurance risk) – 5 sensitivities including changing lapse rates and the loss of a critical customer and broker.
- Economic variances (market risk) – 14 sensitivities including changing equity values, interest rates, credit spreads, portfolio weighting and insurance premium tax increases.
- 7 scenarios were also run, each of which combined a number of aspects from the above sensitivities.

The Society's income and expenditure account has shown deficits in recent years however, as a not for profit business, this is part of the long-term cycle of business. Prior to this, the Society has built up substantial reserves and the decision was made to utilise these for the benefit of the Society and its members. There was a substantial increase in claims returned to members from 2015 and the Society is now investing heavily in order to deliver the new strategy which will diversify the product offerings and set the Society up for an even brighter future.

Strategic Report (continued)

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

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

Key Risks

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

Strategic Risk

- The Society could fail to keep pace with emerging technology enablers and disruptors in the Cash Plan market and wider healthcare industry. The Society recognises that employers and members increasingly expect a sophisticated digital proposition as part of the overall product package and is investing extensively in technology to allow enhanced employer functionality and improved member access and interaction
- Changes in the political or economic environment, for example, an increase in insurance premium tax, or the uncertain outcome of the UK exiting the European Union, could significantly impact the demand in the health cash plan market. The Society seeks to mitigate those elements over which it has influence, including engaging with the government and trade bodies, and internally looking to protect itself from price increases, while meeting member expectations

Market Risk

- The Society accepts the inherent risks that arise in pursuing its investment strategy and has set its risk appetite for market risk. The Society minimises the risk that its capital position may weaken by holding a diversified portfolio, placing a restriction on the holding of non-investment grade bonds and setting an overall credit rating target

The investment portfolio continues to be actively managed by our investment managers, Investec Wealth and Investment Ltd.

Insurance Risk

- The Society's core product remains the health cash plan and its largest potential exposure is to an unforeseen and dramatic increase in morbidity, claims or expenses, which it seeks to manage through its in-house pricing and underwriting team
- Expense analysis and variance from budgets and plans is closely monitored and action to control and mitigate risk, integrated with product development and pricing

Operational Risk

The Society recognises a number of significant operational risks, which it seeks to manage:

- Key projects must be successfully delivered, including the integration of acquisitions, which are required to deliver future synergies. The Society acquired two subsidiary businesses in 2017 which will be fully integrated into its core operations by the end of 2019. The Society is recruiting dedicated change management resource to enhance its change capability

Strategic Report (continued)

- Operations must be sufficiently resilient to withstand or recover quickly from disruptions and unforeseen events. The Society is utilising cloud based servers and communications, and SaaS (software as a service) products to enhance its resilience, performance and security, including its cyber resilience
- Outsourcing of critical services requires that the Society adopts appropriate control and oversight of the service providers. The Society has a supplier management policy which requires a business case prior to outsourcing, detailed due diligence on proposed suppliers, robust contractual terms and ongoing supplier oversight and management
- The Society's activities must be consistent with regulatory requirements and expectations. The Society has an in-house compliance team and utilises external support and advice when necessary to understand its compliance responsibilities and manage regulatory risk. In 2018, the Society was particularly focused on the implementation of GDPR and continues to deliver training and embed data protection impact assessments within its change programmes. The Society is also engaged in reviewing its regulatory permissions to ensure they remain appropriate
- The Society continues to distribute its products through the broker market and its own dedicated sales force. The Society recognises the associated operational risks, for example potential mis-selling. The Society is undertaking a review of its sales force structure and the overall approach to performance management and incentives to ensure that it is appropriately aligned

All material operational risks to which the Society is exposed are identified and recorded in the risk register.

The Future of the Cash Plan and Health and Wellbeing Market

In 2018, there has been a significant increase in focus in the market from clients and brokers on health and wellbeing. Cash plans have evolved over the last ten years to offer a range of services, which allow members to look after their own health. These go beyond the traditional dental, optical and physiotherapy benefits. For example, in 2018 the Society launched its mental health app, Thrive. We see this trend continuing into 2019 and we will be looking to launch new products which meet the needs of members and clients.

This change in emphasis from cash plans to the wider wellbeing market will provide additional diversification away from pure cash plans. The Society started diversifying with the purchase of Prevent and Medex Protect and it will continue to look at further acquisitions and developing innovative new products in 2019.

The industry continues to be subject to evolving regulation. On 25 May 2018, the EU's new data protection legislation, the General Data Protection Regulation (GDPR), came into force. The regulations apply to all controllers or processors of data, and required an overhaul of data protection policies, practices and technology. Further regulation is inevitable and the Society has a strong compliance team in place to ensure it complies with these changes.

Looking at cash plans, we still believe that the main area of demand for Health Cash plans will be from employers. Latest industry data shows an increase in demand from employers but a fall in demand in the voluntary sector and we think that this trend will continue into 2019.

The future of the Society is also discussed in the Longer Term Viability Statement above.

Approved by the Board of Directors and signed on behalf of the Board on 4 April 2019

Courtney Marsh FIA

Chief Executive

Board Report

Introduction

The Friendly Societies Act 1992 ("the Act") requires the Society to prepare financial statements for each financial year. Under that law, Health Shield has elected to prepare its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, 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.

In preparing these financial statements, the Board is required to:

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

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

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

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

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

Details of the Board members during the year are given on page 3.

Society’s Powers

The Board can confirm that no material activities were carried out during 2018 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. The total amount paid out under this scheme in 2018 was £11,592 (2017 - £8,629).

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. In 2018, 441 reportable complaints were received (2017 - 137). Of these, 6 were referred to the Financial Ombudsman (2017 - 4); two were upheld and four rejected by the Financial Ombudsman.

Officers’ Liability Insurance

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

Board Report (continued)

Post Balance Sheet Events

There were no events subsequent to the balance sheet date that impact on the 2018 financial statements.

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 4 April 2019

Signed

Courtney Marsh FIA

Chief Executive

Corporate Governance Statement for the Accounts for the year ended 31 December 2018

Introduction

For the year ended 31 December 2018, the Society's Corporate Governance principles were in accordance with the 2016 Annotated UK Corporate Governance Code for Mutual Insurers (issued by the Association of Financial Mutuals (AFM)). In January 2019, the AFM Corporate Governance Code was released which the Society will comply with from 2019 onwards.

In order to operate a sustainable business, it is essential that there is an effective corporate governance process in place. At Health Shield we have created a clear framework of governance in which honesty, integrity and openness are reinforced at all levels of the organisation.

The Board has overall responsibility for the manner in which the Society runs its affairs. How we achieve our goals matters to us. It is not just what we do, but how we do it. Members rightly expect the highest standards of corporate behaviour in all the decisions we make.

The Board is the guardian of not only the members' assets but also the Health Shield brand. Enhancing our reputation and developing excellent working relationships with all our stakeholders is central to the way we approach our business. At a time when breaches of corporate trust and integrity are under the spotlight, resulting in ever greater scrutiny, regulation and control, we believe that our core values, based around trust, value, service, creativity and caring for our members, could not be more relevant, essential and valuable to sustain us for our long-term future.

Our values help support us and ensure we reflect on doing the right things the right way. We believe that these values should continue to guide the principles of how we do business and, if we continue to respect these, they should underpin our performance for the longer term. Being true to our values and being fair to all stakeholders has enabled us to build and maintain a trusted relationship with our members, employees, brokers and suppliers. The Board believes that good governance should be focused right across the business not only in the boardroom. This ultimately produces a better business and improves long-term performance.

The work of the Board complements, enhances and supports the work of the Executive. The Board seeks to achieve this through setting out its strategy, monitoring its strategic objectives and providing oversight of its implementation by the management team. Working together, the Board conducts robust interrogation of plans and actions, ensuring high quality decision-making in all areas of strategy, performance, responsibility and accountability. The role of the Chairman is at the heart of ensuring these actions are sustained and harnessed and can drive a culture of continuous improvement in standards and performance across our business ensuring we have a Board that:

- Supports the Executive Team to formulate and execute the strategy
- Demonstrates independence, knowledge and experience to bring fresh perspectives and to hold management to account
- Seeks full information to form views, question management and take strategic decisions
- Is diverse and, while acknowledging the recommendations on diversity, ensures that we have the right balance of skills, experience and background
- Acts responsibly to make sure we meet our accountabilities to our stakeholders

To be truly effective, the Board must have a full understanding of the market within which we operate and the Executive members of the Board ensure that this is the case. There is a high degree of informed scrutiny, challenge and guidance from our dedicated Non-Executive Directors. The effectiveness of any Board can be compromised if it remains static in its thinking given the pace of change within the financial services industry. The Board regularly has both internal and external evaluation of its own effectiveness.

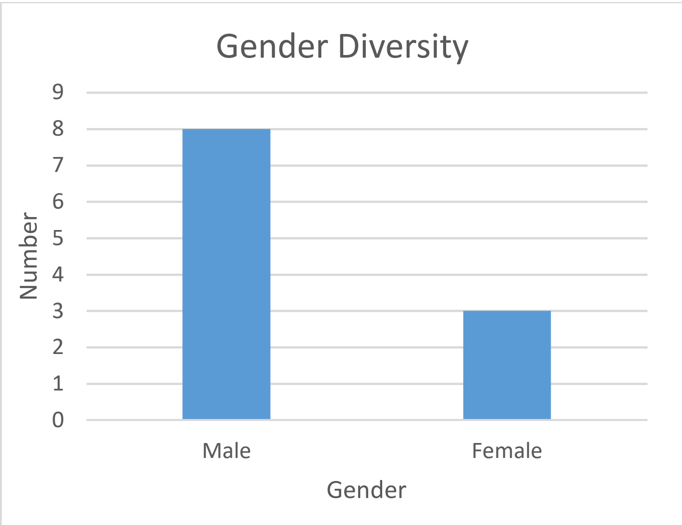
Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

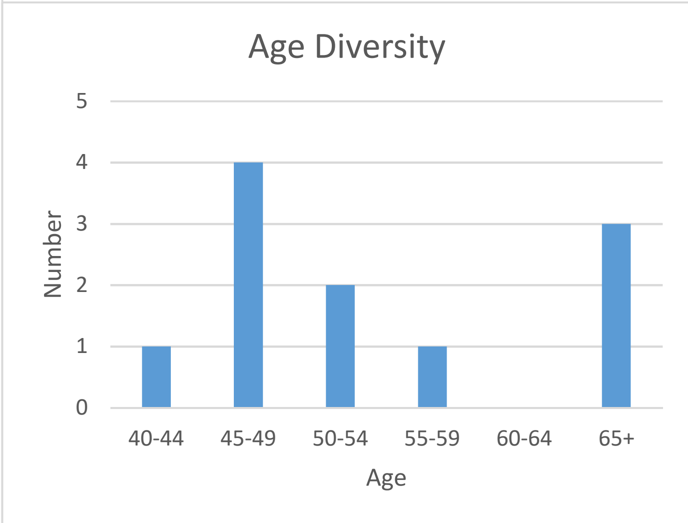
Board Diversity

The Board has due regard for the benefits of diversity in its membership. For all prospective Board appointments, a broad advertising and search campaign is undertaken in order to obtain a diverse pool of candidates. The Society's key objective for all appointments is to ensure the best skill set to enhance the Board's experience and ability.

The Society's Board refreshment program continued during 2018 with the retirement of Mr Brian Stringer (retired 18 May 2018) and the appointment of Mrs Alison Alden (appointed 1 November 2018). This appointment continues the objective of bringing new experience and knowledge to the Board to enable them to continue to challenge the Society's strategic direction, while encouraging the Board to be accountable for the decisions they have made.

The following disclosures have been prepared in accordance with The Annotated UK Corporate Governance Code for Mutual Insurers.





Leadership

Code Principle: Every company should be headed by an effective Board which is collectively responsible for the long-term success of the company.

Our Board comprises a Chairman, who is Non-Executive, eight other Non-Executive Directors, a Chief Executive and one other Executive Director. We determine the strategic direction of the Society and are responsible for the Society's system of Corporate Governance. There are a minimum of five full Board meetings each year where we discuss, inter alia, reports on Membership, Risk, Marketing, IT, Operations, Finance, Human Resources, Investment Performance, Regulatory issues and Corporate Governance matters.

There are also four sub-committees which include an Audit Committee, a Risk Management Committee, a Business Delivery & Investment Committee and a Nomination and Remuneration Committee. Each sub-committee is chaired by a Non-Executive Director. The structure of each sub-committee is shown in the appendix to the Corporate Governance Statement together with an explanation of roles and responsibilities.

The role of the Non-Executive Director is to bring independent judgment to the decision-making and control processes. All Non-Executive Directors have unlimited access to management information. In addition, a process exists whereby Non-Executive Directors can request independent professional advice where they consider it necessary.

As noted above, the Board meets at least five times per year in addition to various ad hoc meetings as and when considered necessary. All Board members have the benefit of Directors' and Officers' Liability Insurance at the Society's expense.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

Code Principle: There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision-making.

The offices of Chief Executive and Chairman are distinct and are held by different persons.

The Chairman has specific responsibility for formulating the Board's strategy and ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the Executive. In addition, the Chairman is responsible for ensuring high standards of propriety and promoting efficient and effective use of our staff and other resources throughout the Society.

The Chief Executive is responsible for running the day-to-day operations of the Society and for developing the business along policy lines agreed with the Board.

Code Principle: The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Society's Chairman:

- Ensures effective operation of the Board and its committees in conformity with the highest standards of corporate governance
- Helps the Chief Executive set the agenda, style and tone of Board discussions to promote constructive debate and effective decision-making
- Is supported by the Chief Executive in the development of strategy amongst other issues
- Ensures that all Board committees are properly established, composed and operated
- Promotes effective relationships and communication between Non-Executive Directors and members of the Society's Executive
- Ensures comprehensive induction programmes for new Directors and updates for all Directors as and when necessary
- Ensures that the performance of the Board, its main committees and individual Directors is formally evaluated on an annual basis

Code Principle: As part of their role as members of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

Our Non-Executive Directors scrutinise the performance of the Executive Team in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and ensure that financial controls and systems of risk management are robust and defensible.

Effectiveness

Code Principle: The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

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

We feel that our Board possesses a diverse skill mix including finance, investment management, legal, strategic management, risk management, human resources and actuarial but more importantly operates cohesively for the benefit of our members.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

Code Principle: There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

All appointments to the Board are first discussed by the Nomination and Remuneration Committee which identifies areas where, either there is a particular skill that they feel is lacking within our constitution, or where there is a need for succession planning for an existing position. The search for Board candidates would be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. During 2018, the Society appointed Alison Alden to the Board following a rigorous interview process.

The use of consultants, external advertising and recommendations from within the Society, are all considered when appointments are made. All candidates, from whatever source, must be able to demonstrate that they have the skills and experience necessary to make a positive contribution to the Board. All new Non-Executive Directors are required to undergo an induction process and to confirm that they are able to make the necessary time for their commitment to the Society.

Code Principle: All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

The table below shows each Board member's attendance at Board meetings and sub-committees.

	Board	Audit	Risk Management	Business Delivery & Investment	Nominations & Remuneration
Non-Executive Directors					
David Allen	8 (8)	3 (4)	3 (4)	4 (4)	5 (5)
Alan Phizacklea	8 (8)	4 (4)	4 (4)	n/a	n/a
Brian Stringer (retired 18 May 2018)	4 (4)	n/a	1 (1)	n/a	2 (2)
Michael Carpenter	7 (8)	3 (4)	n/a	n/a	3 (5)
Chris Chappell	7 (8)	n/a	4 (4)	4 (4)	n/a
David Maddison	6 (8)	n/a	n/a	4 (4)	5 (5)
Celia Gannon	7 (8)	4 (4)	4 (4)	n/a	n/a
Julie Hansen	7 (8)	n/a	n/a	4 (4)	5 (5)
Scott Robinson	6 (8)	4 (4)	n/a	4 (4)	n/a
A Alden (appointed 1 November 2018)	2 (2)	1 (1)	1 (1)	n/a	n/a
Executive Directors					
Jonathan Burton (deceased 6 April 2018)	1 (2)	0 (1)	0 (1)	0 (1)	0 (1)
Courtney Marsh	7 (7)	4 (4)	4 (4)	4 (4)	4 (4)
Philip Wood	5 (7)	n/a	n/a	4 (4)	n/a

All Board meetings and sub-committees were well attended. In addition, most Board members attended the regular training sessions organised for them by the Society.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

Code Principle: All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

The Society's Compliance Team have developed an enhanced training and competence plan for 2018 to ensure that all Board members build even further on their existing skill sets, and have the required level of knowledge and possess the skills necessary to fulfil their duties as Directors of the Society. All our Board members are encouraged to attend courses, seminars and conferences where it is felt that such attendance would help to develop their knowledge, understanding and capability. All our Directors have access to independent professional advice at the Society's expense where they consider it necessary to discharge their responsibilities as Directors.

Code Principle: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

We review, on an annual basis, the quantity and the quality of the management information (MI) that we receive from the Executive and make suggestions as to how this may be improved. At their latest Board meeting, the Board members agreed that all MI received was accurate, timely and clear.

Code Principle: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.

During 2018, the Society has engaged an external consultant with extensive experience in this area, to perform a Board evaluation. The results of this review will be discussed with the Board and individual Board members during their development reviews early in 2019.

Code Principle: All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

The Society's rules require that all Directors are submitted for re-election at the Annual General Meeting following their appointment to the Board. All Directors are required to seek re-election every three years after being elected. Any term of service over nine years for a Non-Executive Director is subject to review.

The Board feels that it currently has the right mix of Executive to Non-Executive Directors. Whilst all of the Board's Non-Executive Directors are considered to be independent in experience, character and judgment, a planned programme for the refreshment of the entire Board has been developed. This is being phased across a number of years to ensure a degree of continuity.

Accountability

Code Principle: The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

Both the financial statements and the return to the regulatory authority are reviewed by the Board prior to submission to ensure that all of the information contained within them, pertaining to the Society's position and prospects, is fair, balanced and understandable.

Code Principle: The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

A separate section detailing the Society's approach to Risk Governance is included at the end of the Corporate Governance Statement.

Code Principle: The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditor.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

The composition and roles & responsibilities of the Audit Committee are detailed on page 27.

Relationship with Members

Code Principle: There should be a dialogue with members based on the mutual understanding of objectives.

The Board as a whole has responsibility for ensuring that a satisfactory dialogue with members takes place. As part of its approach to addressing Conduct Risk, and as good business practice, we regularly seek the opinions of our members. We do this by holding annual regional meetings and by sending out regular member satisfaction surveys. Commitment to our members remains our top priority.

Summary

We have complied with the Annotated UK Corporate Governance Code for Mutual Insurers throughout the period with the exception of the recommended length of service for Non-Executive Directors.

Several members of the Board have exceeded the recommended time limit but the Board feels that the qualities that these members bring to overseeing the Society's affairs, together with their independent nature, more than compensate for the departure from the code. A plan is in place to substantially and progressively refresh the Board, which will be completed by the end of 2019. This will result in bringing the Society substantially into line with regulatory guidance. The requirements of the new AFM Corporate Governance Code will also be considered as part of the Board refreshment program.

Board of Directors:

Composition during the year: Mr D Allen (Chair), Mr JR Burton (CEO – deceased 6 April 2018), Mr CC Marsh (CEO), Mr AE Phizacklea (Deputy Chairman), Mr BS Stringer (Senior Independent Director – retired 18 May 2018), Mrs J Hansen (Senior Independent Director), Mr PJP Wood (Sales Director), Mr MCL Carpenter CB (Non-Executive Director), Mr CI Chappell (Non-Executive Director), Mr D Maddison (Non-Executive Director), Mrs C Gannon (Non-Executive Director), Mr S Robinson (Non-Executive Director), Mrs A Alden (Non-Executive Director – appointed 1 November 2018).

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

Key responsibility: Setting the Society's strategy

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

Chairman: David Allen

Key responsibility: To ensure effective leadership, operation and governance of the Board.

Chief Executive: Courtney Marsh

Key responsibility: Day-to-day management of the Society and overseeing the implementation of Board strategy and policy.

Senior Independent Director (subject to regulatory approval): Julie Hansen

Key responsibility: To act as a sounding board for fellow Non-Executive Directors and conduct a regular review of the performance of the Chairman.

Non-Executive Directors:

Key responsibility: Monitoring the implementation of the Society's strategy through constructive challenge of the Executive team.

Audit Committee:

Composition during the year: Mr AE Phizacklea (Chair), Mr D Allen (in attendance), Mrs C Gannon, Mr MCL Carpenter CB, Mr S Robinson, Mrs A Alden (appointed 1 November 2018), Mr JR Burton (in attendance – deceased 6 April 2018), Mr CC Marsh (in attendance), Mr N Foskett (Chief Financial Officer – in attendance)

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 may also investigate or advise on these or any related matters that are referred to it and may act independently of the Executive where it considers necessary. The Committee is empowered to seek any information that it requires from any officer or employee of the Society and to take such independent advice, as it considers necessary.

Responsibilities

Key responsibilities 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)
- Monitor the overall framework of internal control, particularly those concerning financial reporting and disclosure and advise the Board on the appropriateness of policies and procedures designed to maintain control over transactions and events
- Oversee the effectiveness of the Society's Internal Audit function.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

- Oversee the selection process and make recommendations to the Board regarding appointment, re-appointment or removal of the Society's external auditor and, in turn, manage the relationship with the external auditor
- Review the Society's procedures for Whistleblowing ensuring that the Society's arrangements are adequate for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee should ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action
- Review the Society's procedures for the prevention of bribery and receive reports on non-compliance
- Review the Society's procedures for detecting fraud and receive reports on non-compliance
- Review the annual operating budget and annual capital budget and advise the Board on whether they are a robust basis for financial control and are consistent with the Society's strategy, corporate plans and financial policies

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. We receive from Deloitte LLP a detailed audit plan, identifying their assessment of key risks. For 2018, the primary risks identified were in relation to:

Issue	Response and challenge
Valuation techniques and assumptions used in the valuation of the Long-Term Business Provision ('LTBP')	Deloitte's most significant challenge came in the form of the involvement of their internal actuarial experts who supported the audit of the LTBP. This review included recalculation of specific areas using independent data to test the reasonableness of the Actuarial Function Holder's ("AFH's") calculation. In addressing this significant risk Deloitte have: • Evaluated the design and implementation of controls supporting the transfer of data between the underlying policy administration system and the reserving calculation; • Verified the data inputs used (i.e. number of claims, exposures) to information reviewed by the audit team; • Performed a review of the analysis performed and justifications provided for the proportionate contract boundary approach; and • Confirmed that the actual vs expected adjustment has been applied correctly within the model Deloitte also assessed the competence and independence of the third party actuarial consultant and those within the Society itself who are involved in the calculation.
Management override of controls	In response to this risk Deloitte have: • Considered the potential for Management bias in the key audit risks; • Performed specific fraud focussed testing on the journals posted in the period. Deloitte have: 1) Reconciled the prior year general ledger with the current year closing general ledger to test the completeness of the journal entry population provided by Management; 2) Tested the appropriateness of the journals by using Deloitte's bespoke IT package that identifies journal entries that could display indicators of fraud and tracing these through to appropriate evidence. • Performed substantive testing on a sample of adjustments posted to the trial balance by obtaining an understanding of these adjustments, challenging the business rationale and concluding on their appropriateness; • Considered the level of review, nature of review and documentation of the review of journal postings to assess the appropriateness of the internal controls designed to prevent management override through use of journals; and • Obtained an understanding of the Society's rationale of any significant transactions that Deloitte became aware of that were outside the normal course of business or that otherwise appeared to be unusual given Deloitte's understanding of the Society and its environment.

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

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

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 Deloitte LLP upon completion of the audit.

Deloitte LLP was appointed to act as the Society's external auditor in 2009 and has been re-appointed by the Society's Annual General Meeting each subsequent year. Deloitte LLP did not provide any significant non-audit services during the year. The Society will be putting the external audit out to tender after the completion of the 2018 audit in order to meet the requirements of the ten-year rule.

Nominations and Remuneration Committee:

Composition during the year: Mr MCL Carpenter CB (Chair), Mr D Allen, Mrs J Hansen, Mr D Maddison, Mr BS Stringer (retired 18 May 2018), Mr JR Burton (in attendance – deceased 6 April 2018), Mr CC Marsh (in attendance – from April 2018)

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

Key responsibilities:

Key responsibilities of the Nominations and Remuneration Committee are to:

- Review on a regular basis, the structure size and composition of the Board and to make recommendations to the Board, for any proposed changes.
- Formulate plans for succession for both Executive and Non-Executive Directors of the Board, senior management, key function holders and other material risk takers.
- Identify and nominate for the approval of the Board, suitable candidates to fill Board vacancies.
- Oversee annual evaluations of the Board's performance ensuring that, once in every three years, this is undertaken by an external, independent body. Review the results of these Board evaluations, in particular how they relate to the Board's composition and effectiveness and recommend to the Board any action.
- Review the ongoing training and competence needs of the Board, agree plans for training and development and monitor their delivery to ensure continuing effectiveness and improvement in the Board's capacity.
- Consider the re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required and the need for progressive refreshing of the Board (particularly in relation to Directors being re-elected for a term beyond nine years).
- Make recommendations to the Board for approval on appointments to the Board's sub-committee and ensure that they are rotated sufficiently frequently to spread expertise and maintain the freshness of the Committees.
- Assist the Board in developing and maintaining the Society's culture, its behaviours, body of ethics and code of business conduct.
- Recommend to the Board for approval, the Society's remuneration policy and oversee its implementation, through the Chairman and the Chief Executive (as appropriate) for the total remuneration of Executive Directors, the chairman and other designated Senior Executives.
- 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.
- Ensure that the remuneration policy aligns with the risk appetite of the Society and is consistent with the Society's long term strategic goals.
- Oversee any major changes in employee benefits structures throughout the Society.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

Business Delivery and Investment Committee:

Composition during the year: Mr D Maddison (Chair), Mr D Allen, Mrs J Hansen, Mr CI Chappell, Mr S Robinson, Mr JR Burton (in attendance – deceased 6 April 2018), Mr CC Marsh (in attendance) and Mr PJP Wood (in attendance)

Role: The role of the Business Delivery and Investment Committee is to assist the Board in fulfilling its oversight responsibilities for sales and the subsequent customer experience across the Group, including its policy aims for retention of business. In addition, it will oversee 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 advisers.

Key responsibilities:

- Oversee the process and controls for sales and the customer journey, including the quality of information and services provided, to ensure that they meet the standards expected of the Society, are consistent with its stated values and support delivery of its strategic aims.
- Receive and review reports from the Executive team on the business environment within which the Society operates, including trends, risks, opportunities, and potential changes in direction. Make recommendations to the Board about emerging developments and market positioning.
- Review the continuing relevance of the Society's vision, mission, values and objectives, as they impact the customer experience and recommend to the Board any proposed changes.
- Review progress against the sales and business delivery elements of the plan and annual budget and provide advice to the Audit Committee to assist with its responsibility for monitoring the overall financial performance of the Society. Identify key metrics against which to measure the success of the Society's current and future business.
- Monitor business and product profitability, market share, trends and performance against targets and recommend action, as necessary, where these move out of line with agreed business strategy, plans and budgets.
- Receive and consider reports on the number and nature of complaints made and any trends emerging and determine action as necessary.
- Develop and recommend to the Board a policy for the pricing and underwriting of new business and products which will ensure the long term financial health of the Society.
- Oversee the development and implementation of the Society's IT strategy ensuring that it has sufficient resource in terms of investment in people, infrastructure and development capacity. Make recommendations to the Board as necessary.
- Agree and oversee the effective operation of a process for review and monitoring of the Society's investment of its assets, within policies set by the Board. This includes the appointment of external advisers. Ensure compliance with all applicable legislation and regulatory guidance, in regard to all investment matters.
- Continuously review the performance of the outsourced investment management function and recommend action as necessary.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

Risk Management Committee:

Composition during the year: Mr CI Chappell (Chair), Mr D Allen, Mr AE Phizacklea, Mr BS Stringer (retired 18 May 2018), Mrs C Gannon, Mrs A Alden (appointed 1 November 2018), Mr JR Burton (deceased 6 April 2018), Mr CC Marsh (in attendance), Mr L Foster (Director of Risk and Compliance - in attendance)

Role: The Risk Management Committee assists the Board of Management in fulfilling its oversight responsibilities for the risk management framework, including recommending the Risk Management Policy and risk appetite for the Board's approval.

Key responsibilities:

Key responsibilities of the Risk Management Committee are to:

- Advise the Board and make recommendations as necessary, on the Society's overall risk strategy, appetite and tolerance (including measurement), taking account of the current and prospective macro-economic and financial environment and drawing on financial stability assessments.
- Review and recommend to the Board the design and implementation of the Society's risk management and capital management policies and frameworks.
- Review and recommend for approval by the Board, the Society's annual Own Risk and Solvency Assessment (ORSA) report, the associated Corporate Plan and the ORSA policy.
- Keep under review the relationship with regulators and developments in the regulatory environment.
- Review and approve the Society's annual compliance plan and ensure that resources are in place to deliver it.
- 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 and advise the Board on any proposed strategic initiatives.
- Provide qualitative and quantitative advice to the Nominations and Remuneration committee on risk management considerations in its development and/or appraisal of targets and performance objectives for Executive remuneration.
- Consider and approve the remit of the risk management function, ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- Recommend to the Board for approval the Society's approach to market and liquidity risk management and monitor the market and liquidity risk appetite ensuring that appropriate actions are being taken by the Executive Team.
- Recommend to the Board for approval, investment policies which reflect the agreed approach to market and liquidity risk and the Board's risk appetite and review these policies annually recommending to the Board any proposed change.
- Review the adequacy of the Society's Business Continuity Plan, recovery and resolution plan and information security procedures.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

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

The Board of Management

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 a number of critical 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).

Risk Management Committee

The Risk Management Committee assists the Board of Management in fulfilling its oversight responsibilities for the risk management framework, including recommending the Risk Management Policy and risk appetite for the Board's approval.

Audit Committee

The Audit Committee's primary role is to monitor the integrity of the financial statements and the related financial controls. It also monitors and reviews the effectiveness of the Internal Audit Function, which has a key role to play in providing assurance over the internal framework including the operation of the risk management system.

Business Delivery and Investment Committee

The Business Delivery and Investment Committee monitors the performance of the business against risk appetite, including insurance risk. It has particular responsibility for oversight of the Society's investments and implementing the Market Risk Policy.

Nominations and Remuneration

The Nominations and Remuneration Committee's primary role is to recommend to the Board the strategy and policy for the engagement and remuneration of the Society's employees. This particularly applies to the remuneration of the Society's Directors and Senior Management which should be structured to incentivise appropriate risk-taking and strategic alignment.

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 system. They approve the Society's strategy and appetite for risk and ensure it has the appropriate capacity and capability in place in the respective lines of defence to manage and monitor risk in line with the strategy and appetite.

The first line - undertake risk management - risk will be managed day to day on the front line by the Executive, managers and staff. This is in accordance with the risk appetite, strategies and the risk framework, which are all set by the Board.

The second line - provide risk oversight - the Society has an independent Risk Function which is the primary champion for risk management, implements and monitors risk strategy, policy and reporting and embeds a risk aware culture.

The third line - provide independent assurance - the Society's Internal Audit Function will provide independent assurance on the design and effectiveness of the overall system of internal control, including risk management and compliance. They will focus their audit work on the significant risks and provide assurance on the management of risk.

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.

Corporate Governance Statement for the Accounts for the year ended 31 December 2018 (continued)

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

Key functions in risk governance

Risk Management Function

- The Risk Function will assist the Risk Management Committee in reviewing and recommending the Risk Appetite Statement and the Risk Management Policy to the Board for approval;
- The Risk Management Function will continuously identify, measure, monitor, manage and report − incurred and potential risks and their interdependencies – at an individual and at an aggregated level;
- The Risk 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;
- Provides appropriate risk training to the Board, management team and staff.

Compliance Function

- The function is responsible for regulatory risk control, i.e. the identification, assessment, monitoring and reporting of regulatory risks, for example the risk of incurring legal or regulatory sanctions, significant financial loss or damage to reputation resulting from the company's failure to comply with laws or regulations.
- The function provides advice on compliance with legal and regulatory obligations, including the training and monitoring as appropriate. The compliance function will also provide operational areas and the risk management function with support on legal requirements when new products and services are to be launched or when the company intends to enter a new market.
- The Compliance Function submits an annual plan to the Risk Management Committee.

Internal Audit Function

- The Internal Audit Function provides independent assurance of the adequacy and effectiveness of the internal control system, including risk management;
- The function establishes, implements and maintains an audit plan setting out the audit work to be undertaken in the upcoming years, taking into account all activities and the complete system of governance of the Society.
- It issues internal audit reports to the Audit Committee based on the results of work carried out, which includes findings and recommendations, including the envisaged period of time to remedy the shortcomings and the persons responsible for doing so, and information on the achievement of audit recommendations.
- The function also submits the internal audit report to the Audit Committee on at least an annual basis.

Actuarial Function

The Actuarial Function formally reports to the Board annually and addresses:

- Any inconsistencies in the calculation of technical provisions and proposes corrections as appropriate.
- The adequacy of the reinsurance policy and the reinsurance arrangements for the Society and consider their interrelation with the technical provisions.
- Explanation for any material effect of changes in data, methodologies or assumptions used between valuation dates on the amount of technical provisions;
- Assessment of the consistency of the internal and external data used in the calculation of technical provisions against the data quality standards under Solvency II and, where relevant, recommend changes to internal procedures to improve data quality.
- Reporting of all material tasks that have been undertaken by the actuarial function, their results, clearly identifying any deficiencies and giving recommendations as to how such deficiencies could be remedied.

Directors’ Remuneration Report

Code Principle: Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors’ remuneration should be structured to link rewards to corporate and individual performance. There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

Introduction

This report sets out our Directors' Remuneration Policy for 2018.

The report has been prepared to comply with the requirements of the Annotated UK Corporate Governance Code and the guidelines on Corporate Governance for Mutual Insurers (issued by the Association of Financial Mutuals).

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, an annual performance related award linked to the Executive Directors' contribution to the Society and a benefits package.

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

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

Executive Directors

Salary

Salaries paid to Executive Directors are subject to annual review and all available information, including comparative market rates as provided by an external consultant, Croner Reward, is used in setting the levels of remuneration. The consultants used have no connection to the Society. Salary amendments are normally effective from July each year.

Performance Related Pay

All Executive Directors have part of their total emoluments linked to business performance. Currently, Executive Directors can receive an annual performance related bonus and a deferred performance related bonus, both of which can be up to 20% of their base salary.

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 is entitled to medical insurance and a company car.

Directors’ Contracts

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

Directors' Remuneration Report (continued)

Non-Executive Directors

Salary

Fees paid to Non-Executive Directors are subject to annual review and all available information, including comparative market rates, is used in setting the levels of remuneration.

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

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

Performance Related Pay

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

Retirement and Related Benefits

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

Other Benefits

Non-Executive Directors do not receive any additional benefits.

Summary

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

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

Directors’ Remuneration Report (continued)

Directors’ Emoluments

	Salary & Fees	Performance Related Pay*	Other Benefits	Total 2018	Total 2017
	£	£	£	£	£
Chairman					
D Allen	52,256	-	880	53,136	40,909
Executive Directors					
JR Burton					
(deceased 6 April 2018)	77,379	315,393	7,241	400,013	272,029
CC Marsh	152,078	214,064	31,940	398,082	188,018
ME Wilson					
(retired 29 June 2017)	-	-	-	-	567,239
PJP Wood	146,257	223,023	20,856	390,136	195,604
Non-Executive Directors					
CI Chappell	23,878	-	-	23,878	18,264
MCL Carpenter CB	23,118	-	-	23,118	15,464
C Gannon	23,878	-	-	23,878	18,264
J Hansen	26,998	-	-	26,998	18,964
D Maddison	25,318	-	-	25,318	19,664
AE Phizacklea	28,798	-	-	28,798	21,064
BS Stringer					
(retired 18 May 2018)	14,887	-	-	14,887	20,364
HM Welsh					
(retired 18 May 2017)	-	-	-	-	8,500
M Yates					
(retired 18 May 2017)	-	-	-	-	7,800
S Robinson	22,098	-	-	22,098	4,984
A Alden					
(appointed 1 November 2018)	£4,465	-	-	4,465	-
Total	£621,408	£752,480	£60,917	£1,434,805	£1,417,131

*Performance related pay includes payment of the long-term incentive plan for the five-year period from 2013 to 2017, for which all targets were achieved.

Statement of Chief Actuary

The Chief Actuary to Health Shield Friendly Society Limited is Mr. Simon Grout, a partner of Oliver Wyman. The Society has requested him to furnish it with the particulars required under the Financial Services & Markets Act 2000 and section 77 of the Friendly Societies Act 1992.

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

The total fees payable to Oliver Wyman for professional services amounted to £171,231 (2017 - £155,821).

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Health Shield Friendly Society Limited (the 'Society') and its subsidiaries (the 'Group'):

- **give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2018 and of the group's and the society's income and expenditure for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the requirements of the Friendly Societies Act 1992.**

We have audited the financial statements which comprise:

- the group income and expenditure account;
- the group statement of comprehensive income;
- the group and society balance sheets; and
- the related notes 1 to 17 excluding the capital adequacy disclosures in note [] calculated in accordance with the Solvency II regime which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 are 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation techniques and assumptions in determining the long term business provision ("LTBP") Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the Group financial statements was £808,000, which was determined on the basis of Gross Written Premiums.
Scoping	All of the audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Significant changes in our approach	We no longer consider the completeness of data used in setting the Long Term Business Provision and revenue recognition as key audit matters. In 2018 we changed the benchmark to Gross Written Premiums, as it was considered to be a more appropriate measure of the scale of the society, plus the fact that other income streams are growing, but are more volatile at this stage of their life cycle.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Society's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 17-18 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on pages 16-17 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 16-17 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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. These matters included 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.

We no longer consider the completeness of data used in setting the Long Term Business Provision and revenue recognition as key audit matters. The completeness of data is does not involve significant management judgement. Due to the largely mechanical nature of their revenue recognition, we no longer consider this to be a key audit matter in the current year. We have also refined our key audit matter on the valuation techniques and assumptions in determining the long term business provison, but our approach remains largely consistent.

<table>
<tr><th colspan="2">Valuation techniques and assumptions in determining the long term business provision ("LTBP")</th></tr>
<tr><td>Key audit matter description</td><td>At the year-end the Society recognises a LTBP of £3,410,000 (2017: £4,749,000) which we consider to be material both quantitatively and qualitatively.

Due to the number and complexity of assumptions and judgements involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The LTBP consists of a best estimate liability amount plus a risk margin, with the best estimate liability being calculated using numerous demographic and economic assumptions.

In the current period, we focused our key audit matter on morbidity assumptions in the claims basis and contract boundary methodology.

Given the nature of Health Shield's book, it is not appropriate to use industry standard morbidity tables for projecting claims experience. The assumptions have been developed over a number of years and are refined as appropriate where annual experience suggests a change to the assumptions . This process involves the use of judgement and the assumptions are material to the LTBP.

The Chief Actuary function is outsourced to an external management expert.

This key audit matter is documented in corporate governance statement for the accounts on page 28. It has also been referenced in the accounting policy notes 1 and note 2, critical accounting judgements and key sources of estimation and the provision for liabilities note (note 16).</td></tr>
<tr><td>How the scope of our audit responded to the key audit matter</td><td>We have assessed the design and implementation of the internal controls put in place by management to manage the setting of technical provision assumptions.

We have involved our internal actuarial experts in our challenge of the LTBP. This included recalculations of movements in the Best Estimate Liability using an independent model to test the reasonableness of the Chief Actuary's calculations.

Management undertook an excercise during 2018 to better document the rationale for the term of the contract boundary for each class of business and refine the data feeds and reserving model to determine the contract boundary more accurately. We perform challenge of the analysis performed and justifications provided for the proportionate contract boundary approach. Our actuarial experts assessed the rationale to determine contract boundaries and agree with the revised methodology and conclusions reached.

We challenged the determination of the proposed morbidity claims assumptions in light of the past claims experience data and adjusted to reflect management's future expectations as per the business plan. We assessed and challenged whether the consistent application of the previous methodologies in deriving appropriate assumptions is appropriate and agree with the conclusion reached.</td></tr>
</table>

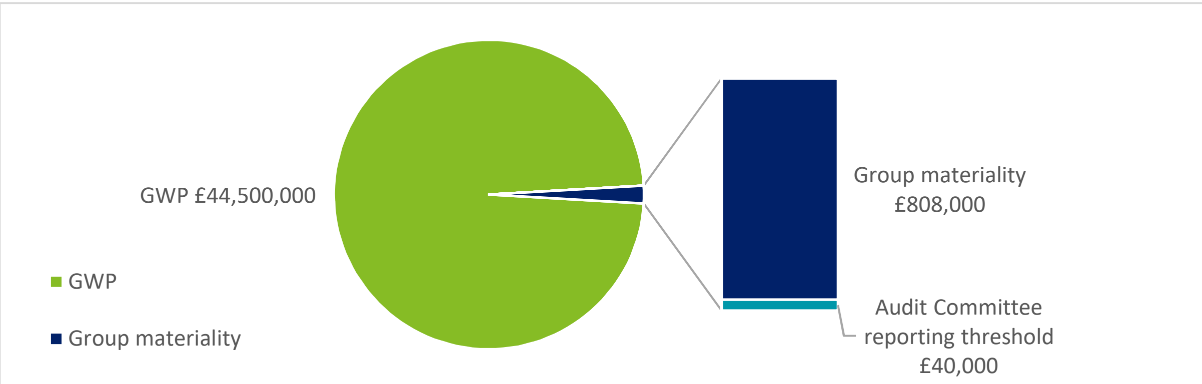
	We independently verified management's assessment of the reserving impact of changing the morbidity assumptions using our replication models and sensitivity analysis. We inspected the experience studies performed by management used to inform the best estimate assumptions including performing sample testing on the data inputs used (number of claims and exposures) to audited information. We evaluated the competence and independence of the third party actuarial consultant and those within the Society itself who are involved in the calculation. Management updated their calculations following our challenge on commission renewal and premium inflation assumptions used in the LTBP and we assessed the revised calculations prepared by management.
Key observations	We concluded that the LTBP is reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group and Society financial statements
Materiality	Group materiality is £808,000 (2017: £760,000) Society materiality is £802,000 (2017: £760,000)
Basis for determining materiality	1.8% of Gross Written Premiums. (2017: 1.8% of total revenue)
Rationale for the benchmark applied	In 2018 we changed the benchmark to Gross Written Premiums, as it was considered to be a more appropriate measure of the scale of the society, plus the fact that other income streams are growing, but are more volatile at this stage of their life cycle.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £40,000 (2017: £36,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society, the overall Group and its environment, including Society -wide controls, and assessing the risks of material misstatement. We tested all subsidiaries to Group materiality. The individual subsidiaries are exempt from a statutory audit and thus, no further procedures are required. All of the audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the Society's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including Information Technology specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following area: Valuation techniques and assumptions in determining the LTBP; and
- obtaining an understanding of the legal and regulatory framework that the Group 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. The key laws and regulations we considered in this context included Prudential Regulation Authority and Financial Conduct Authority regulations and the Friendly Societies Act 1992.

Audit response to risks identified
As a result of performing the above, we identified Valuation techniques and assumptions in determining the LTBP as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the 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 of the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Society's Board during the Annual General Meeting on 23 May 2008 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ended 31 December 2009 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an 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.

Peter Birch (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom

Consolidated Income and Expenditure Account

for the Year Ended 31 December 2018

	Note	2018		2017	
		£	£	£	£
Income					
Gross written premiums		40,121,094		37,734,644	
Premiums ceded to reinsurers		(30,450)		(25,125)	
Premiums written net of reinsurance		40,090,644		37,709,519	
Discounts allowed		(163,278)		(261,023)	
Change in provision for unearned premiums	9	84,469		(54,856)	
Net earned premiums	3	40,011,835		37,393,640	
Commission income	3	619,943		111,816	
Fee income	3	685,414		590,177	
			41,317,192		38,095,633
Investment income					
Bank interest		822		63	
Income from listed investments	12	1,037,538		1,296,377	
Gain from realisation of Investments	12	1,009,203		1,877,565	
Unrealised loss/gain on investments	12	(2,998,968)		99,806	
Unrealised loss on property		-		(3,168)	
			(951,405)		3,270,643
			40,365,787		41,366,276
Expenditure					
Member benefits and claim costs		(31,745,463)		(30,303,892)	
Operating expenses	7	(14,752,556)		(12,679,612)	
Change in long-term business provision	16	1,338,202		(2,018,018)	
			(45,159,817)		(45,001,522)
Tax expense	5		(33,291)		(9,189)
Deficit for the year			(4,827,321)		(3,644,435)

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 2018

	2018	2017
	£	£
Loss for the Year	(4,827,321)	(3,644,435)
Other comprehensive income		
Revaluation of occupied land and buildings	52,250	-
Total comprehensive loss for the year	(4,775,071)	(3,644,435)
Total comprehensive loss attributable to:		
Owners of the parent	(4,775,071)	(3,644,435)

Consolidated Balance Sheet

31 December 2018

	Note	2018 £	2017 £
Fixed Assets			
Intangible assets	10	1,087,206	1,217,652
Tangible assets	11	3,818,449	3,453,874
Investments	12	35,163,542	41,574,637
		40,069,197	46,246,163
Current Assets			
Stocks		1,528	1,528
Debtors	13	5,468,152	5,575,359
Cash at bank		1,392,484	1,761,456
		6,862,164	7,338,343
Creditors			
Amounts falling due within one year	14	(3,277,229)	(3,817,101)
Net Current Assets		3,584,935	3,521,242
Total Assets less Current Liabilities		43,654,132	49,767,405
Provisions for Liabilities	16	(3,410,497)	(4,748,699)
Net Assets		40,243,635	45,018,706
Reserves			
Fund for future appropriations		40,191,385	45,018,706
Revaluation reserve		52,250	-
		40,243,635	45,018,706

The financial statements of Health Shield Friendly Society (registered number 50F) were authorised for issue by the Board on 4 April 2019 and signed on its behalf by:

David Allen – Member of the Board

Alan Phizacklea – Member of the Board

Courtney Marsh – Chief Executive

Company Balance Sheet

31 December 2018

	Note	2018 £	2017 £
Fixed Assets			
Intangible assets	10	-	-
Tangible assets	11	3,782,621	3,417,252
Investments	12	36,546,676	43,041,260
		40,329,297	46,458,512
Current Assets			
Debtors	13	6,364,010	6,013,067
Cash at bank		1,156,544	1,531,060
		7,520,554	7,544,127
Creditors			
Amounts falling due within one year	14	(3,166,087)	(3,666,789)
Net Current Assets		4,354,467	3,877,338
Total Assets less Current Liabilities		44,683,764	50,335,850
Provisions for Liabilities	16	(3,410,497)	(4,748,699)
Net Assets		41,273,267	45,587,151
Reserves			
Fund for future appropriations		41,221,017	45,587,151
Revaluation reserve		52,250	-
		41,273,267	45,587,151
Society's deficit for the financial year		(4,366,134)	(3,075,990)

The financial statements of Health Shield Friendly Society (registered number 50F) were authorised for issue by the Board on 4 April 2019 and signed on its behalf by:

David Allen – Member of the Board

Alan Phizacklea – Member of the Board

Courtney Marsh – Chief Executive

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

	Revaluation reserve	Fund for future appropriations	Total equity
	£	£	£
Balance at 1 January 2017	-	48,663,141	48,663,141
Changes in equity			
Deficit for the year	-	(3,644,435)	(3,644,435)
Balance at 31 December 2017	-	45,018,706	45,018,706
Changes in equity			
Deficit for the year	-	(4,827,321)	(4,827,321)
Other comprehensive income	52,250	-	52,250
Total comprehensive income	52,250	(4,827,321)	(4,775,071)
Balance at 31 December 2018	52,250	40,191,385	40,243,635

Company Statement of Changes in Equity

for the Year Ended 31 December 2018

	Revaluation reserve £	Fund for future appropriations £	Total equity £
Balance at 1 January 2017	-	48,663,141	48,663,141
Changes in equity			
Total comprehensive loss	-	(3,075,990)	(3,075,990)
Balance at 31 December 2017	-	45,587,151	45,587,151
Changes in equity			
Deficit for the year	-	(4,366,134)	(4,366,134)
Other comprehensive income	52,250	-	52,250
Total comprehensive income	52,250	(4,366,134)	(4,313,884)
Balance at 31 December 2018	52,250	41,221,017	41,273,267

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

1. **ACCOUNTING POLICIES**

General information and basis of accounting

The principal accounting policies are summarised below. They have been applied consistently throughout the year and to the preceding year. Health Shield Friendly Society Limited is a registered Friendly Society under the Friendly Society Act 1992. The address of the registered office is given on page 3. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 10 - 18.

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

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

For the year ended 31 December 2018 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 subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired are consolidated for the periods from the date on which control passed.

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

Going concern

The Board of Health Shield has considered in detail the Society's forecast performance, as well as its capital and liquidity resource requirements and any potential implications resulting from Brexit. On this basis the Board has a reasonable expectation that the Society has sufficient capital and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing these accounts. The Strategic Report provides further details of the Society's going concern assessment. Brexit has also been considered within the preparation of the financial statements and is determined not to have any material impact on the financial statements as a whole.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

1. **ACCOUNTING POLICIES (continued)**

Earned premiums

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

Fee and commission income

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

Goodwill

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

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

Tangible fixed assets

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

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

Improvements to property	Up to 25 years straight line
Fixtures, fittings & equipment	25% on reducing balance
Computer equipment	Up to 6 years straight line

Owner Occupied Property

All property owned by the Society is long leasehold and is included under 'Land and Buildings' within Tangible Assets on the Balance Sheet at open market 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.

Investments

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

Financial instruments

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

1. **ACCOUNTING POLICIES (continued)**

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

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

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

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

Taxation

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

Deferred tax

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

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

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

Cash and cash equivalents

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

Short-Term Debtors and Creditors

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

1. ACCOUNTING POLICIES (continued)

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.

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.

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.

Fund for Future Appropriations

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Society's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

There are no critical areas where accounting judgements are made.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 8. The impact of a 10% increase/decrease in morbidity would be to increase/decrease the LTBP by £2.3 million. The impact of a 10% increase/decrease in expense rates would be to increase/decrease the LTBP by £0.6 million.

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

3. INCOME

	2018 £	2017 £
An analysis of the Group's income by class and category is as follows:		
Net earned premiums from cash plan business	40,011,835	37,393,640
Commission income from insurance mediation	619,943	111,816
Fee income from health screening and occupational health programmes	685,414	590,177
	41,317,192	38,095,633

All income relates to business written in the United Kingdom.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

4. EMPLOYEES AND DIRECTORS

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
(a) Employment costs, including Directors, during the year:				
Wages and salaries	5,803,818	5,941,658	5,158,495	5,544,982
Social security costs	675,750	590,598	609,295	558,895
Other pension costs - note 4 (d)	463,136	214,088	444,897	206,357
	6,942,704	6,746,344	6,212,687	6,310,234
(b) Average number of employees during the year (including Executive & Non-Executive Directors):				
Administration	116	95	102	92
Claims	23	22	23	22
Acquisition	40	39	40	37
Total	179	156	165	151

(c) Aggregate emoluments of the Board:	2018	2017
	£	£
Salaries and other emoluments	1,405,066	918,015
Pension contributions	29,741	41,445
Compensation for loss of office	-	457,671
	1,434,807	1,417,131
	Number	Number
Number of Directors who are members of a money purchase pension scheme	2	3
In respect of the highest paid Director:	£	£
Total emoluments	400,013	272,029

(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 2018 was £51,292 (2017 - £37,698).

5. **TAXATION**

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

	2018	2017
Current tax:	£	£
UK corporation tax	33,291	9,189
Tax on loss	33,291	9,189

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:

	2018	2017
	£	£
Loss before tax	(6,105,900)	(3,635,246)
Loss multiplied by the standard rate of corporation tax in the UK of 19%	(1,160,121)	(727,049)
Effects of:		
Income not taxable	1,087,526	649,613
Increase in tax losses carried forward	103,303	86,625
Adjustments to the tax charge in respect of previous period	2,583	-
	33,291	9,189

'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.

6. **INDIVIDUAL INCOME STATEMENT**

As permitted by Section 408 of the Companies Act 2006, the Income Statement of the parent company is not presented as part of these financial statements.

7. **NET OPERATING EXPENSES**

	2018	2017
	£	£
Acquisition costs	4,507,231	4,205,152
Administrative costs	10,120,629	8,332,900
Investment management expenses	124,696	141,560
	14,752,556	12,679,612

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

7. **NET OPERATING EXPENSES (continued)**

Net operating expenses includes the following:

Fees payable to the Society's Auditor for audit assurance services	87,440	68,898
Fees payable to the Society's Auditor for other services	-	32,176
Hire of equipment - operating leases	277,083	292,808
Commission	3,020,364	2,179,026
Actuary function holder's remuneration	171,231	155,821
Loss on disposal of fixed assets	1,971	230,129
Amortisation of goodwill	130,446	172,199
Depreciation of owned fixed assets	396,099	459,213

8**. 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 Society is financially robust and well managed.
- 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 Society has an acceptable level of solvency which is in line with the Board's risk appetite. In like manner, the impact on solvency of the Society's products, is also reviewed regularly.

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 projection includes stress tests and validates the Society's latest business plan and is used to support strategic and product development work.

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

	31 Dec 2018 £	1 Jan 2018 £
Life business UK non-participating		
Total Fund for Future Appropriations before deductions	40,191,385	45,018,706
Adjustments to assets and other negative valuation differences	-	-
Total available capital resources (unaudited)	40,191,385	45,018,706

Total available capital resources are 390% (1 January 2018 - 383%) of the Solvency Capital Requirement (unaudited).

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

8. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Management of risk

The Board has agreed a Risk management policy which, at its heart, affirms that the Society accepts a degree of risk in the belief it will have a positive outcome and generate value. The Society recognises that it must find an appropriate balance between risk and reward. To do so, the Society seeks to identify its risks, understand its capacity to effectively manage or withstand those risks, and articulate its appetite for those risks accordingly.

To implement this policy, the Board has developed a risk management strategy which forms an integral part of ensuring that the Society's risks are managed in alignment with its objectives and business strategy. Effective management of risks is essential to maintain: the financial stability of the Society for its members, employees and other stakeholders; the value of its assets; and its reputation and standing within the market. Further detail on corporate governance structure and the impact of current market conditions are provided in the corporate governance statement.

It is policy that, for all key business decisions, risk and the effect of the decision on capital, is considered. This applied in 2018 and it will continue to apply in future.

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
- Credit risk
- Liquidity risk
- Operational risk
- Concentration risk
- Strategic risk

Insurance risk

Insurance risk is the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The key insurance risks for the Society are increases in morbidity, claims or expenses.
To mitigate morbidity, risk the Society regularly reviews the benefits and premiums offered to its members. These reviews aim to optimise a balance between a fair and competitive product offer to members and the capital needs of the Society, in terms of retaining sufficient capital to meet its liabilities. The other major insurance risks are persistency risk (claims) and expense risk. Persistency risk occurs if either high claiming members remain with the Society or low claiming members leave it. Expense risk occurs when costs are higher than expected or planned.

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

8. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

The table presented below demonstrates the sensitivity of the Long-Term Business Provision (LTBP) and available capital to movements in assumptions:

Variable	Change in Variable	Change in LTBP £000s	Change in Available Capital £000s (unaudited)
Morbidity	+10%	2,294	(2,294)
Morbidity	-10%	(2,287)	2,287
Interest	+1% per annum	(33)	(782)
Interest	-1% per annum	35	872
Expenses	+10%	639	(639)
Expenses	-10%	(639)	639
Contract Boundaries	+1 month	20	(20)
Contract Boundaries	-1 month	(14)	14
Mortality	+10%	(7)	7
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 Business Delivery and Investment Committee and has an Investment Policy which the Society's investment managers are required to follow in order to safeguard the Society's investments. The Investment Policy contains, among other things, guidance on the ranges and types of assets which the Society wishes to hold. Any deviations from these guidelines must be reported via the monthly investor's performance reports. Market risk is comprised of a number of individual risks to which the Society is exposed, as follows:

Equity risk

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

8. 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 variables are:

- A 10% increase and decrease in the value of equities
- A 69 basis point increase and decrease per annum in the market rates of interest
- A 20% increase and decrease in the value of property

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

31 December 2017	Equity prices		Fixed interest securities		Property values	
Impact on FFA	+10%	-10%	+69bp	-69bp	+20%	-20%
Total	**2,015,433**	**(2,015,433)**	**(670,093)**	**724,543**	**516,971**	**(516,971)**

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.

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 2018

8. 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 31 December 2018 and 31 December 2017.

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

Fair value measurement at December 2017	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial Assets				
Listed Investments	41,575	-	-	41,575
Owner occupied property	-	-	2,585	2,585
Strategic Investments	-	-	1,467	1,467
Total	**41,575**	**-**	**4,052**	**45,627**

The majority of the Society's investments are valued based on quoted market information or observable market data. Owner occupied properties are stated at their revalued amount, as assessed by qualified external valuers in line with the Society's policy. Further details on the valuation of these properties can be found in note 12.

Strategic Investments are valued at the fair value of their net assets.

There have been no transfers between levels 1, 2 and 3 during 2018.

Credit risk

Credit 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
- Insurance and other receivables

In addition, there will be exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the Society.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

8. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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

31 December 2017	Amount not subject to credit risk £	Amounts subject to credit risk £	Balance Sheet carrying value £
Shares and other variable yield securities	22,622,859	552,052	23,174,911
Debt and other fixed income securities	7,686,647	10,968,132	18,654,779
Cash at banks, building societies and in hand	-	1,531,060	1,531,060
Total	**30,309,506**	**13,051,244**	**43,360,750**

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

Credit rating 31 December 2017	AAA £	AA £	A £	Below A £	Unrated £	Total £
Shares and other variable yield securities	-	-	-	552,052	-	552,052
Debt and other fixed income securities	315,261	1,502,686	3,922,148	5,228,037	-	10,968,132
Cash at banks, building societies and in hand	-	-	405,747	-	1,125,313	1,531,060
Total	**315,261**	**1,502,686**	**4,327,895**	**5,780,089**	**1,125,313**	**13,051,244**

Liquidity risk

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

8. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

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

The Society's membership plans are reviewable on an annual basis with variable premiums. All 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 conduct monthly risk partner meetings with the Management Team. The output of the risk register is reported through to the Society's Risk Management Committee.

Concentration risk

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. Concentrations of insurance risk are considered by the Business Delivery and Investment Committee to ensure that the risk is within the Society's overall risk appetite.

The Society seeks to mitigate the risk of excess concentrations of risk by selling its product throughout the UK without restriction by gender or industry. This is aligned with the Society's vision: to improve the health and wellbeing of as many people as possible, by developing its products and embracing new opportunities.

Strategic risk

Strategic risk is the risk arising from the implementation of agreed strategy. It includes risks arising from political, economic, sociological and technological changes, competitor actions and capital adequacy.

The Executive Team consider all strategic risks when developing and presenting for approval by the Board, each iteration of its business plan.

Basis for setting technical provisions

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

Interest Rate (p.a.)	Cash flows are discounted according to the risk free curve provided by EIOPA
Mortality Rates	35% of AM/AFC00 Ultimate (1 January 2018 35% of AM/AFC00 Ultimate)

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

8. CAPITAL STATEMENT & RISK MANAGEMENT (continued)

Interest Rates - interest rates are set in accordance to rates published by EIOPA as at 31 December 2018. The one-year spot rate as at 31 December 2018 was 0.981% 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 2019 and future years and premiums are subject to annual review. We have not considered market risk under Options & Guarantees as the Society's investment policy does not provide for the use of derivative contracts.

Analysis of change

Basis	Change £000s	Available Capital £000s
1 January 2018 available capital resources		44,197
Effect of contract boundaries	488	44,685
Effect of leavers	201	44,886
Effect of premium and benefit increases	974	45,860
Effect of members ageing	36	45,896
Effect of New Business	(362)	45,534
Effect of Renewal Commission	640	46,174
Basis changes		
- Morbidity	(244)	45,930
- Inflation	1,068	46,998
- Expenses	(1,151)	45,847
- Lapses	6	45,853
- Mortality	0	45,853
- IPT	(189)	45,664
Catastrophe Risk	(2)	45,662
Yield Curve	10	45,672
Life and L&Y	9	45,681
IBNP	(140)	45,541
Default Risk	0	45,541
Operational Risk	(6)	45,535
Other Liabilities	501	46,036
New Asset Data and Market Risk	(6,880)	39,156
31 December 2018 available capital resources		39,156

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

9. UNEARNED PREMIUMS

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

Group & Company	2018 £	2017 £
Balance at 1 January	544,372	489,516
Movement in unearned premium	(84,469)	54,856
Balance at 31 December	459,903	544,372

10. INTANGIBLE FIXED ASSETS

	Group Goodwill £	Company Goodwill £
Cost		
At 1 January 2018 and 31 December 2018	1,389,852	-
Amortisation		
At 1 January 2018	172,200	-
Amortisation for year	130,446	-
At 31 December 2018	302,646	-
Net Book Value		
At 31 December 2018	1,087,206	-
At 31 December 2017	1,217,652	-

11. TANGIBLE FIXED ASSETS

Group	Long Leasehold £	Improvements to Property £	Fixtures, Fittings, Equipment £	Computer Equipment £	Totals £
Cost or Valuation					
At 1 January 2018	2,425,000	359,004	1,004,469	2,074,918	5,863,391
Additions	-	324,464	3,772	383,797	712,033
Disposals	-	-	(7,825)	(1,644)	(9,469)
Revaluation	52,250	-	-	-	52,250
At 31 December 2018	2,477,250	683,468	1,000,416	2,457,071	6,618,205
Depreciation					
At 1 January 2018	-	199,151	793,026	1,417,340	2,409,517
Disposals	-	-	(5,495)	(365)	(5,860)
Charge for year		25,605	56,623	313,871	396,099
At 31 December 2018	-	224,756	844,154	1,730,846	2,799,756
Net Book Value					
At 31 December 2018	2,477,250	458,712	156,262	726,225	3,818,449
At 31 December 2017	2,425,000	159,853	211,443	657,578	3,453,874

Included in cost or valuation of land and buildings is freehold land of £2,477,250 (2017 - £2,425,000) which is not depreciated.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

11. TANGIBLE FIXED ASSETS (continued)

Cost or valuation at 31 December 2018 is represented by:

	Long Leasehold £	Improvements to property £	Fixtures, fixtures, equipment £	Computer equipment £	Totals £
Valuation in 2018	2,477,250	-	-	-	2,477,250
Cost	-	683,468	1,000,416	2,457,071	4,140,955
	2,477,250	683,468	1,000,416	2,457,071	6,618,205

Properties were valued on an open market basis as at 31 December 2018, by Legal Owen Ltd, Chartered Surveyors, in accordance with the RICS Valuation (Global Standards 2018) including the International Valuation Standards. The value of the properties occupied by the Society was £2,477,250 (2017 - £2,425,000). If the properties were not measured under the revaluation model, their cost for use under the historic cost model would be £3,662,806.

Company	Long Leasehold £	Improvements to property £	Fixtures, fixtures, equipment £	Computer equipment £	Totals £
Cost or Valuation					
At 1 January 2018	2,425,000	359,004	986,060	2,031,845	5,801,909
Additions	-	324,464	3,772	368,369	696,605
Disposals	-	-	(7,365)	-	(7,365)
Revaluation	52,250	-	-	-	52,250
At 31 December 2018	2,477,250	683,468	982,467	2,400,214	6,543,399
Depreciation					
At 1 January 2018	-	199,151	782,850	1,402,656	2,384,657
Disposals	-	-	(5,393)	-	(5,393)
Charge for year	-	25,605	50,988	304,921	381,514
31 December 2018	-	224,756	828,445	1,707,577	2,760,778
Net Book Value					
At 31 December 2018	2,477,250	458,712	154,022	692,637	3,782,621
At 31 December 2017	2,425,000	159,853	203,210	629,189	3,417,252

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

12. FIXED ASSET INVESTMENTS

Group	Listed investments £
At 1 January 2018	41,574,637
Additions	6,406,707
Disposals	(9,818,834)
Revaluations	(2,998,968)
At 31 December 2018	35,163,542

Cost or valuation at 31 December 2018 is represented by:	Listed investments £
Valuation in 2018	35,163,542

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

Company	Shares in group undertakings £	Listed investments £	Totals £
Cost or Valuation			
At 1 January 2018	1,466,623	41,574,637	43,041,260
Additions	-	6,406,707	6,406,707
Disposals	-	(9,818,834)	(9,818,834)
Revaluations	-	(2,998,968)	(2,998,968)
At 31 December 2018	1,466,623	35,163,542	36,630,165
Impairment			
At 1 January 2018	-	-	-
Impairment loss	83,489	-	83,489
At 31 December 2018	83,489	-	83,489
Net Book Value			
At 1 January 2018	1,466,623	41,574,637	43,041,260
At 31 December 2018	1,383,134	35,163,542	36,546,676

Cost or valuation at 31 December 2018 is represented by:

	Shares in group undertakings £	Listed Investments £	Totals £
Valuation in 2018	-	35,163,542	35,163,542
Cost	1,383,134	-	1,383,134
	1,383,134	35,163,542	36,546,676

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

12. FIXED ASSET INVESTMENTS (continued)

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

Subsidiary

Prevent Limited

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

iHealth System Limited

Registered office:	United Kingdom
Nature of business:	Occupational health services
Class of shares:	Ordinary
% holding	100

Medex Protect Limited

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

Health Shield Wellbeing Limited

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

Health Shield Insurance Services Limited

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2018

13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Trade debtors	4,655,067	4,533,239	4,292,784	4,235,292
Amounts owed by group undertakings	-	-	1,264,329	762,333
Other debtors	27,487	64,682	25,780	39,025
Prepayments and accrued income	785,598	977,438	781,117	976,417
	5,468,152	5,575,359	6,364,010	6,013,067

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Trade creditors	402,958	411,949	387,825	383,951
Tax	33,402	54,449	-	-
Social security and other taxes	1,229,134	1,179,972	1,229,134	1,176,342
Other creditors	(540)	53,438	(540)	(1,450)
Accruals and deferred income	1,101,080	1,535,547	1,038,473	1,525,876
Defined contribution pension	51,292	37,374	51,292	37,698
Provision for unearned premiums	459,903	544,372	459,903	544,372
	3,277,229	3,817,101	3,166,087	3,666,789

15. LEASING AGREEMENTS

Minimum lease payments fall due as follows:

	Non-cancellable operating leases	
Group	2018	2017
	£	£
Within one year	15,253	71,282
Between one and five years	335,381	372,251
	350,634	443,533

The operating leases relate to motor vehicles and office equipment.

16. PROVISIONS FOR LIABILITIES

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Other provisions				
Long-term business provision (LTBP)	3,410,497	4,748,699	3,410,497	4,748,699
	3,410,497	4,748,699	3,410,497	4,748,699
Aggregate amounts	3,410,497	4,748,699	3,410,497	4,748,699

Group	LTBP £
Balance at 1 January 2018	4,748,699
Movement in year	(1,338,202)
Balance at 31 December 2018	3,410,497

Company	LTBP £
Balance at 1 January 2018	4,748,699
Movement in year	(1,338,202)
Balance at 31 December 2018	3,410,497

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 13 and 14 respectively). These balances are unsecured, interest free and repayable upon demand.

Company	2018 £	2017 £
Balances due from wholly owned subsidiaries	1,264,329	762,333