

SOVEREIGN HEALTH CARE
(AN INCORPORATED COMPANY LIMITED BY GUARANTEE)
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Company Registration No. 00085588 (England and Wales)

Established 1873

**SOVEREIGN HEALTH CARE
DIRECTORS AND ADVISERS**

Directors

Dr. R. E. Dugdale, Bsc Hons, PhD - Chairman
C. M. Hudson, ACA - Vice Chairman
M. S. Bower, LLB (Hons) - Senior Independent Director
D. Child, ACIB
S. M. Cummins, MCIPD
R. S. Piper
J. S. Sellars, FCA
S. R. Davies (appointed 18 July 2016)
J. C. Fortune (appointed 18 July 2016)
M. Austin (resigned 29 February 2016)

Secretary

J. S. Sellars, FCA

Chief executive

R. S. Piper

Life members

E. Bentham, FCA
G. A. Clarkson
J. L. Hellawell
D. J. Lewis
F. L. Morgan
M. Austin

Company number

00085588

Registered office

Royal Standard House
26 Manningham Lane
Bradford
BD1 3DN

Registered Auditors

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Bankers

HSBC Bank plc
HSBC House
1 Bond Court
Leeds
LS1 2JZ

Solicitors

Gordons LLP
Forward House
8 Duke Street
Bradford
BD1 3QX

Investment managers

Dewhurst Torevell & Co Limited
5 Oxford Court
Manchester
M2 3WQ

Actuarial Function Holder

R. S. Piper (shared)
J. S. Sellars, FCA (shared)

SOVEREIGN HEALTH CARE

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SOVEREIGN HEALTH CARE
CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

This will be my final report as Chair of Sovereign Health Care and I am delighted to report that once again the business has had a very successful year helping thousands of our customers with the cost of their everyday health care.

Our executive and management team have worked tirelessly throughout the year to both deliver our trading objectives and continue to deliver process and efficiency improvements by leveraging the benefits from the policy administration system introduced in 2015. This will ultimately lead to significantly enhanced choices for our customers when using and managing their policy.

2016 was a year of consolidation and stabilisation, during the course of the year we invested significant time and resource into refreshing the underlying IT hardware and capability to allow the business to move forward on a stable, supported and fit for purpose platform. At the same time as this ongoing work we successfully delivered all of the required reporting, processes and procedures to support the Solvency II regime which commenced at the start of 2016.

We continue to enjoy a very healthy capital position with investment portfolio and cash deposits exceeding £63.3m and retained earnings in excess of £61.6m which is significantly higher than our solvency requirement. This allows us to focus on delivering quality customer outcomes and remain low risk from the perspective of both regulators, the Prudential Regulation Authority and the Financial Conduct Authority.

Sovereign Health Care once again made a substantial donation of just over £500,000 (which represents around 5% of annual turnover) to the charitable trust. As usual, the charitable trust made various grants, some large and some small, touching people's lives within our community in a positive and helpful fashion. The decision was made that for future charitable donations the company would be better served by making these direct to the beneficiary and to this aim a community funding sub-group of the main board has been created with a view to coordinating the charitable activities in 2017 and beyond.

The early part of 2016 saw us complete the restructure of our claims and customer services area and I would like to offer my sincere thanks to the staff that left us, with over 70 years "Sovereign" experience between them, their contribution to our business will be missed.

The beginning of 2016 saw the formal commencement of the Solvency II regime, our first Day 1 reporting and subsequent reporting returns. This has led to an extraordinary amount of extra work in producing the submission and the quality assurance required through an external audit. Needless to say moving to a live Solvency II environment has added significant additional costs to the business and these are reflected in the operating expenses increase seen in the year.

It remains an unfortunate side effect of the rigidity of the capital requirement calculation that whilst the operational risks to the business remain unchanged, we are required to insulate ourselves against the potential risks of the strategic decisions around the investment of the surplus assets. This has led to a marked increase in our capital requirements over those required for the cash plan business, reflecting the excellent return on investments generated in the year. We are fortunate that Sovereign Health Care continues to hold significant capital in excess of the Solvency II requirements and will continue to strive to do so.

In closing the past four years serving as Chair of Sovereign Health Care has been a real pleasure and I thank my fellow directors for their continued support.



Dr R E Dugdale, BSc Hons, PhD - Chairman
Director
22 March 2017

SOVEREIGN HEALTH CARE
CHIEF EXECUTIVE'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

2016 was a year dominated by unexpected events around the world, with the UK voting to leave the European Union and Donald Trump defying the odds to win the US General Election. There were equally unexpected events in the sporting arena such as Leicester City winning the Premiership and these examples of the "unexpected" happening, demonstrate the need for business planning to take into account unexpected circumstances and outcomes. The Solvency II regime which came into effect from January 2016 requires insurers to consider unexpected likelihoods and outcomes as part of its capital planning requirements, and this is an area where Sovereign Health Care can demonstrate its financial strength.

Closer to home, some outcomes were quite predictable such as the decision by the new Chancellor of the Exchequer, Phillip Hammond, to target the softer indirect tax that is general insurance and raise Insurance Premium Tax (IPT) by a further 2%. This increase has had the effect of doubling the rate of IPT paid by the customer in less than two years.

We have led a campaign along with other cash plan providers to try and make our product and services exempt from this regressive tax that actually penalises individuals that take personal responsibility by holding adequate and relevant insurance. I visited HM Treasury along with the Chief Executive of our trade body, the Association of Financial Mutuals, making the case that the Chancellor at the time, George Osborne, commented that IPT is lower in the UK than most of Europe, yet failed to mention most European countries exempt health insurance.

Treasury officials were sympathetic to our case and suggested ways we could support our cause by providing tangible data of how we provide real value to the general public and the NHS. They acknowledged that many countries in Europe exempt health insurance and there is a limit on the amount of briefing they can give the Chancellor and Chief Secretary to the Treasury. So when the new Chancellor used exactly the same line in the autumn statement as his predecessor, it further supported our view that IPT is now an income stream for government and that individuals taking personal responsibility is now secondary. Needless to say we will continue to lobby on your behalf and keep health cash plans affordable.

The ongoing costs of meeting the Solvency II requirements and the increases in IPT are challenges that all insurers face, so I am delighted to report that despite these challenges 2016 was an excellent year for us once again delivering a trading surplus, achieving significant growth in our reserves and assets and once again making a huge difference to our local communities with a £500,000 donation to our Charitable Trust.

A significant part of our charitable giving in 2016 included £75,000 to various parts of the NHS locally and surely this is a better use of money than paying it to central government in the form of tax. Rest assured we will not be deflected in our aim of positively touching people's lives with charitable donations.

We paid over 200,000 claims to our customers totaling just over £7m helping them afford everyday health care and staying healthy. Anything we can do to support health and wellbeing is a positive outcome given the strain and stresses NHS and Social Care is enduring at present.

Having implemented the new policy administration system in 2015, last year saw us consolidate a number of process improvements and look to further enhance our IT capability to deliver real change over the next 24 months. Our aim is to put our customers in control of their relationship with us and we plan to introduce a number of service and product enhancements to support this.

We said goodbye to a number of long serving staff during 2016, indeed at the end of March three colleagues with 70 years' service between them all left on the same day. We are grateful for the commitment and dedication they showed to Sovereign over many years.

Finally I would of course like to thank our staff for their hard work and dedication in help making Sovereign Health Care an important employer in Bradford and a strong supporter of health and wellbeing in Leeds/Bradford and the wider Yorkshire region. This year I would also convey my thanks to our outgoing Chair, Bob Dugdale who has been a great support over the past four years.



R S Piper - Chief Executive
Director
22 March 2017

SOVEREIGN HEALTH CARE

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present the strategic report and financial statements for the year ended 31 December 2016.

Review of the business

	£
Premium Income	11,268,441
Underwriting Fees	(571,017)
Claims	(7,057,496)
Operating Expenses	(3,788,129)
Net Result	(148,201)
Investment Growth and Dividends	8,671,178
Charitable Donations	(500,843)
Taxation	(1,306,143)
Retained Result for the year	<u>6,715,991</u>
Retained Reserves at 31 December 2016	<u>61,656,424</u>

The Directors are confident that the company has adequate resources and a sustainable business model to continue as a going concern for the foreseeable future. Specific comment on the results for the year are contained in the report from the Chairman and Chief Executives.

Key performance indicators (KPIs)

The board use the following KPIs to measure performance against objectives;

- Earned Premium Growth
- Underwriting results (technical income less claims)
- Operational expenses relative to Earned Premium
- Value of Reserves
- Risk dashboard
- External compliance reports

The first 4 KPI's are disclosed elsewhere within the financial statements (income and expenditure account and the statement of financial position). The final two items contain commercially sensitive information and are therefore not specifically disclosed within the financial statements, the Board are happy with performance against these KPI's.

During 2016 the board are of the opinion that the results recorded against all these areas were either met or exceeded target and are aligned to the long term strategy of the company. Growth was achieved within the agreed budget and risk appetite, with a further increase in our reserves. Key performance indicators are reviewed on a regular basis.

The initial and ongoing reporting requirements for Solvency II were successfully provided to the appropriate regulatory authorities.

Business environment

During 2016, the general improvement in the UK economy, noted in 2015, continued and this was supported by the number of individuals joining the scheme and using their cash plan for their health care. The economy as a whole suffered a brief pause following the EU referendum and subsequent leave vote. However, as reflected in the stock market movement, the impact was temporary and the economy continues to move forward.

Sovereign Health Care continues to focus in its local Bradford and West Yorkshire community, and nationally through corporate employer relationships. Our schemes are low cost, affordable and aim to offer value for money benefits to customers.

The cash plans are monthly renewable contracts allowing us to modify the benefits, premiums and terms of conditions subject to us giving customers a minimum of 30 days' notice. Claims for health care treatment can be submitted up to one year after the date of treatment.

**SOVEREIGN HEALTH CARE
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Strategy

During the year the Board held a focused strategy session and reaffirmed that the following strategy remains core to the business;

- To remain an independent company and provider of individual and company health care cash plans
- To grow our customer numbers in a profitable manner
- To deliver value for money and useable products to its customers
- To remain a low compliance risk to our regulators
- To give a minimum of £500,000 each year in charitable donations from investment returns

Independence

The company was founded as the Bradford District Hospital Fund in 1873 and successive management boards have reaffirmed the desire to remain as an independent provider. We continue to believe we can contribute more effectively to the lives of our customers and local communities by remaining a small focused company that remains in control of its destiny.

Cost effective policy servicing

It is in our customers' best interests that on-going policy servicing, new product design and new routes to market are effective from both a cost and distribution view point. The long term sustainability of the business through growth, effective working practices and the development of technology will support cost effective policy servicing.

Growth in a profitable manner

We distribute the company products through a variety of direct channels including our own field team on a non-advised basis only. Customers are given accurate and relevant information to enable them to make an informed choice to buy our products.

We will continue delivering sustainable value for money products on a community pricing basis for our customers, however we recognise the need to develop and target products to meet the ever changing dynamics within health care, NHS provision and the fact that people are living longer.

We have reaffirmed our belief that continuity within our field teams through sensible sales target expectation is preferable to aggressive growth strategies, high staff turnover and the risk of customer dissatisfaction.

Charitable giving

As a private company limited by guarantee we have no shareholders and therefore trading surplus' and investment income is shared between reinvestment into the company, strengthening our reserves and making charitable donations.

We have structured our investments to generate sufficient dividend income to be able to give a minimum of £500,000 each year to primarily health related good causes that particularly impact on our local community and customers.

We aim to touch people's lives in a positive manner and as such will always consider special one off requests for funds that enhance the lives of our local communities.

Value for money products and customer satisfaction

We continue to develop and distribute low cost, sustainable value for money products both in the individual and corporate markets. Our products are priced on a community basis where age and medical history makes no impact on premiums. Furthermore we make our current products available to new customers up to the age of 75 and in certain cases beyond this. It is important our products reflect the changes in society and the improved longevity.

Furthermore when dealing with customers, we will always ask ourselves the questions, "what would our expectation be?" and "have I been treated fairly?"

**SOVEREIGN HEALTH CARE
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Low compliance risk to our regulators

By default we are a low risk business by the types of products and benefits offered and the premiums charged. As the contracts are deemed as monthly renewable customers never face post sales barriers to cease their cash plan if they decide to change their mind.

We aim to ensure our compliance processes exceed our regulators requirements, but at the same time be cost effective and proportionate to the complexity of our business.

Our values

It is important that the values we aspire to align with our company strategy. These values are summarised as follows;

- To put customers at the centre of everything we do
- To treat customers, suppliers, colleagues and prospective customers with dignity and respect
- To provide sustainable products for the longer term that customers can regularly use, rather than products that are loss making, unclear and/or easy to sell
- To be open, clear and concise with all communication both internal and external
- To manage our finances to ensure we remain independent
- Sound governance, compliance and risk appetite are embedded within our culture

Risk management

The company's business strategy and risk appetite are closely aligned and have been reviewed and updated as part of our Solvency II implementation. Overall we are conscious that the business serves its customers and local community both through our commercial and charitable trust entities and it is important that the risk appetite reflects the importance of staying true to our origins.

The compliance, risk and governance sub group play a leading role in recommending to the main board how to manage and monitor the agreed risks which are part of growing the business.

Specific activity planned for 2017 includes the following;

- Review our investment strategy with our Investment Managers to ensure we have sufficient liquidity and capital to grow the company and maintain charitable donations
- Continue to update our 'ORSA' (own risk solvency assessment) as part of the ongoing compliance with the new Solvency II regulatory regime
- Review the delivery of the requirements of the Solvency II regulatory regime and continue to improve the efficiency of the process
- Regular reviewing of our risk register
- Utilise the internal audit function to develop assurance over key external service providers and vital internal controls

The principle risks and uncertainties relating to the Company relate to :

Market Risks

Movement in equity markets, interest rates, currency rates and other financial market movements can significantly influence the value of the company's investment portfolio.

The company's investment portfolio is focused on delivering medium to long term growth, whilst continuing to generate sufficient annual returns to enable the annual charitable giving to be maintained. The impacts of market shock is monitored and specific capital is held to mitigate against the potential drop in market value of the invested portfolio.

Investments are made using the advice of independent experts and within the terms and guidelines as detailed and approved through the appropriate Board committees.

IT Risks

As IT continues to play an ever increasing role in the delivery of the day to day operations of the business and its future strategy, the risk of IT failures become an increasing risk to the business in terms of lost productivity, data theft or loss. The largest IT risk the company faces relates to the ongoing investment in the development of the core IT systems to deliver an improved customer journey. This development, combined with the changes in data protection regulation, expose the Company to an increasing risk of data issues. The Systems group of the Board meet regularly to ensure that the developments being undertaken are appropriately controlled and fit for purpose in order to manage the identified risks.

**SOVEREIGN HEALTH CARE
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Insurance Risk

Plans are priced on community basis, utilising historical performance and claims data, with a number of additional assumptions built in the models. If policyholder behavior, healthcare costs or any of the other underlying base assumptions change there is a risk that premiums will not be sufficient to meet the claims made.

Claims loss ratios are monitored on an ongoing basis to identify any changes or trends sufficiently early to ensure that the products can be adjusted prior to the business being unduly affected.

Regulation

Regulation continues to develop and maintaining compliance is key to the Group. There is an increasingly complex regime of regulation with a number of bodies responsible for different elements of the rules to which the Group must comply.

We carefully monitor changes to the regulatory requirements, working with third party experts to review and understand specific areas and obtain appropriate benchmarks for implementation of new requirements.

Corporate governance

It is important that our corporate governance structure is fit for purpose, appropriate for our business and also reflects the company's desire to remain an independent cash plan provider serving our chosen communities.

Our main board consists of two executive and seven non-executive directors with a wide range of backgrounds. Experience within our board includes health care, the charitable sector, IT, law, HR, accountancy, banking and insurance broking and we firmly believe the board consists of appropriate skills and experience. During the year one member of the Board resigned and we took the opportunity to recruit two additional non-executive directors in light of the desire to ensure the Board continues to have the skills and expertise necessary to effectively challenge the business. Of the current executive group and board there are eight male and one female Board members. The ratio of male/female board members have changed over the years when directors have reached retirement age or left the business. The board continues with the policy of recruiting the most appropriate skill set regardless of gender. All board members are considered for reappointment every three years and annually over the age of 70.

Matters which are specifically reserved for the board include;

- Appointment and remuneration of the Chair
- Appointment and remuneration of the Directors
- Establishment of board sub-groups and determining their membership and delegated authorities

The board meets every two months ensuring a minimum of 6 board meetings are held each year. Supporting them are four specific sub groups relating to the commercial business and one to the charitable donations.

**SOVEREIGN HEALTH CARE
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Finance, audit and remuneration

The finance, audit and remuneration sub group consists of three non-executives and two executive directors, meeting to review and discuss the following;

- Monthly financial reports
- Unexpected costs outside approved budget
- Investment strategy and performance
- Auditor performance – both internal and external
- Identification of key processes
- Internal control
- Internal audit development to meet Solvency II requirements
- Individual Capital Assessment / Own Risk Solvency Assessment
- Regulatory returns
- Executive remuneration (Executives are not included for this item)

This sub group will produce specific proposals for main board sign off and when required can authorise 'outside of budget' expenditure up to £25,000. Additionally, when time critical this group can also authorise the purchase and /or disposal of £1m of investments.

In extreme circumstances that are time critical, and subject to the CEO and Chair's agreement, this sub group can make decisions on the overall portfolio. In this unlikely event, the executive directors will have tried to speak with each non- executive before the decision is made. Funds will be held in cash with Cofunds until the board agree the next steps.

Sales and marketing sub group

The sales and marketing sub group consists of three non-executives and two executive directors plus the Head of Sales and Marketing, meeting to review and discuss the following;

- Sales performance
- Sales and marketing strategy
- Sponsorships
- Product development
- Distribution channels
- Treating customers fairly
- Sales and marketing budget

This sub group will produce specific proposals for main board sign off and when required authorise priority/time limited activities that support growth.

The sub group can make financial decisions up to £25,000, although these will additionally be ratified by the main board.

For bespoke product opportunities where time does not allow a full board product sign off, this group can authorise the product design for up to 5,000 policyholders.

SOVEREIGN HEALTH CARE
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

Compliance, risk and governance

The compliance, risk and governance sub group consists of three non-executives and two executive directors, meeting to review and discuss the following;

- Compliance and governance controls
- The 'ORSA' process
- Internal controls
- Risk register, matrix and management actions
- Risk appetite
- Management information and risk dashboard to support board directors
- Regulatory developments
- Disaster recovery
- Solvency II capital requirement projections
- Complaints monitoring
- Regulatory reporting

This sub group will produce specific proposals for the main board and when required authorise urgent action to ensure on-going compliance with all regulatory requirements.

Charities (now Community Funding)

The charities sub group includes one executive and two non-executive directors (all three are trustees of the Sovereign Health Care Charitable Trust) plus the Marketing Manager from Sovereign Health Care and the Charitable Co-ordinator, who reports directly to the Chief Executive.

This group review and discuss the following;

- Charitable strategy
- Donation requests
- Recommendations to the trustees
- Annual standing lists
- Charitable trust PR

This sub group makes specific proposals for approval by the Board and has the authority to make small donations, less than £1,000 as required.

The charitable trust has no fund generation requirement activity as it was solely funded each year by Sovereign Health Care. The funding is derived from income generated from the commercial company's investment portfolio.

Systems

Given the scale of investments and the core reliance on the infrastructure and systems operating the Board felt it appropriate to create a new sub-committee to monitor and review the ongoing and future investments made in the IT underlying the successful operation of the business.

The systems sub group includes two executive, one non-executive directors and the Head of IT.

This group review and discuss the following;

- Ongoing system projects and developments
- Systems risk feeding into risk management
- Assessment of requested changes

**SOVEREIGN HEALTH CARE
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Board evaluation

The company recognises that the strength of the board is maintained by having a diverse range of professionals some of whom no longer work full time. There are occasions when directors' other commitments may cause them to fail to attend a meeting, but they are expected to ensure sufficient time is allocated to their role to demonstrate the required level of governance. In the year ending 2016, average attendance at all board meetings and sub groups was 91%.

A formal review of Board effectiveness takes place with every change of Chair (normally 3 year cycles) however the Chair will informally evaluate board performance through a series of meetings with other non-executive directors and the Chief Executive on an ongoing basis.

Finally each year, every member of the board is required to complete a declaration relating to their independence, fitness and propriety.

Results

The consolidated income and expenditure accounts for the year are set out on pages 13 to 14.

It is proposed that the retained surplus of £6,715,991, representing the surplus on activities after tax is transferred to the group's reserves, giving a retained reserves of £61,656,424.

Investments and tangible assets

The changes in fixed assets during the year are explained in notes 13 and 14 to the financial statements.

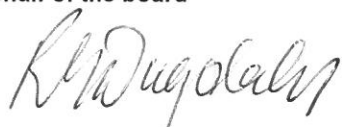
Market value of land and buildings

In the opinion of the directors the land and building has a market value of £755,000; this valuation has been incorporated into the accounts.

Compliance with the UK Corporate Governance Code

The board have sought to comply with a number of the provisions of the code, and the Association of Financial Mutuals (AFM) annotated corporate governance code, in so far as it considers them to be appropriate to a company of our size and nature.

On behalf of the board



**Dr R. E. Dugdale, B,Sc Hons, PhD - Chairman
Director
22 March 2017**

SOVEREIGN HEALTH CARE

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and financial statements for the year ended 31 December 2016.

Principal activities

Sovereign Health Care provides renewable cash plan products to its customers either on a direct to consumer basis, through employer paid schemes or through employer facilitated employee marketing.

Directors

The following directors have held office since 1 January 2016:

Dr. R. E. Dugdale, Bsc Hons, PhD - Chairman	
C. M. Hudson - Vice Chairman	
M. S. Bower, LLB (Hons) - Senior Independent Director	
D. Child, ACIB	
S. M. Cummings, MCIPD	
R. S. Piper	
J. S. Sellars, FCA	
S. R. Davies	Appointed 18 July 2016
J. C. Fortune	Appointed 18 July 2016
M. Austin	Resigned 29 February 2016

The Directors are all considered to be key management personnel. There are no transaction with directors that are not at arms length terms.

Political and charitable contributions

The group does not make any political contributions. During the year, the company contributed £500,843 to the Sovereign Health Care Charitable Trust.

Employee involvement

The group's policy is to consult and discuss with employees, at meetings, matters likely to affect employees' interests.

Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

Disabled persons

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Statement of directors' responsibilities in respect of the Annual Report, Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

**SOVEREIGN HEALTH CARE
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the board



**Dr. R. E. Dugdale, Bsc Hons, PhD - Chairman
Director
22 March 2017**

SOVEREIGN HEALTH CARE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE FOR THE YEAR ENDED 31 DECEMBER 2016

We have audited the financial statements of Sovereign Health Care for the year ended 31 December 2016 set out on pages 13 to 33. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Jones (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square, Sovereign Street, Leeds LS1 4DA
22 March 2017

SOVEREIGN HEALTH CARE
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	£	2016 £	£	2015 £
Technical Account - General Business					
Earned Premium					
Gross premiums written and earned	4	10,652,948		10,502,750	
Change in gross provisions for unearned premiums		<u>(47,781)</u>		<u>(28,157)</u>	
			10,605,167		10,474,593
Other technical income					
Contributions received:					
Personal Accident	4	312,172		418,581	
Health Cheques Direct	4	210,545		230,884	
Positive Care	4	140,557		153,808	
Less: Underwriting premiums		<u>(571,017)</u>		<u>(686,445)</u>	
			92,257		116,828
Allocated investment return transferred from non-technical account	8		1,439,041		1,351,430
			<u>12,136,465</u>		<u>11,942,851</u>
Claims incurred					
Claims paid gross		(7,120,443)		(7,168,789)	
Change in the gross provision for claims		<u>62,947</u>		<u>(15,067)</u>	
			(7,057,496)		(7,183,856)
Net operating expenses	5		(3,788,129)		(3,592,706)
Change in other technical provisions not shown in other headings	18		-		-
			<u>(10,845,625)</u>		<u>(10,776,562)</u>
Balance on the technical account for general business			<u>1,290,840</u>		<u>1,166,289</u>

The notes on pages 18 to 33 form an integral part of the financial statements.

SOVEREIGN HEALTH CARE
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	2015 £
Non-Technical Account			
Balance on the technical account for general business		1,290,840	1,166,289
Investment income	8	3,604,797	3,428,779
Investment return allocated to technical account		(1,439,041)	(1,351,430)
Interest payable	9	-	(1,210)
Unrealised gain/(losses) on investments		5,066,381	(585,406)
Charitable donation		(500,843)	(500,000)
Surplus on ordinary activities before taxation		<u>8,022,134</u>	<u>2,157,022</u>
Tax on surplus on ordinary activities	10	(1,306,143)	(143,553)
Surplus on ordinary activities after taxation		<u>6,715,991</u>	<u>2,013,469</u>
Retained earnings at 1 January		<u>54,940,433</u>	<u>52,926,964</u>
Retained earnings at 31 December		<u>61,656,424</u>	<u>54,940,433</u>

The consolidated statement of income and retained earnings has been prepared on the basis that all operations are continuing operations.

The notes on pages 18 to 33 form an integral part of the financial statements.

Statement of Comprehensive Income

A separate statement of comprehensive income has not been prepared as there are no changes from the balances detailed above.

SOVEREIGN HEALTH CARE
CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

Group	Notes	Profit and loss reserves £
At 1 January 2015		52,926,964
Year ended 31 December 2015: Surplus for the year		2,013,469
Balance at 31 December 2015		54,940,433
Year ended 31 December 2016: Surplus for the year		6,715,991
Balance at 31 December 2016		61,656,424
Company		£
At 1 January 2015		53,743,652
Year ended 31 December 2015: Surplus for the year		1,904,683
Balance at 31 December 2015		55,648,335
Year ended 31 December 2016: Surplus for the year		5,505,755
Balance at 31 December 2016		61,154,090

The notes on pages 18 to 33 form an integral part of the financial statements.

SOVEREIGN HEALTH CARE
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Group		Company	
		2016	2015	2016	2015
		£	£	£	£
Assets					
Investments					
Intangible assets	12	54,760	93,880	54,760	93,880
Investments	14	51,596,957	46,818,572	52,362,057	48,653,202
		<u>51,651,717</u>	<u>46,912,452</u>	<u>52,416,817</u>	<u>48,747,082</u>
Debtors					
Debtors arising out of direct insurance operations		698,274	385,145	657,551	344,184
Other debtors		147,506	169,559	146,012	168,830
		<u>845,780</u>	<u>554,704</u>	<u>803,563</u>	<u>513,014</u>
Other assets					
Tangible assets	13	960,723	760,051	205,723	90,051
Cash at bank and in hand		11,626,521	9,013,837	10,830,201	8,513,115
		<u>12,587,244</u>	<u>9,773,888</u>	<u>11,035,924</u>	<u>8,603,166</u>
Prepayments and accrued income		<u>149,119</u>	<u>79,610</u>	<u>140,799</u>	<u>69,518</u>
Total assets		<u>65,233,860</u>	<u>57,320,654</u>	<u>64,397,103</u>	<u>57,932,780</u>
Liabilities					
Reserves					
Reserves	20	61,656,424	54,940,433	61,154,090	55,648,335
		<u>61,656,424</u>	<u>54,940,433</u>	<u>61,154,090</u>	<u>55,648,335</u>
Technical provisions					
Provision for unearned premiums		575,108	622,889	568,590	615,522
Provision for claims outstanding		702,120	765,067	702,120	765,067
		<u>1,277,228</u>	<u>1,387,956</u>	<u>1,270,710</u>	<u>1,380,589</u>
Provisions for other risk and charges	18	<u>102,266</u>	<u>102,266</u>	<u>102,266</u>	<u>102,266</u>
Creditors					
Other creditors including taxation and social security	17	1,558,783	520,903	1,255,641	479,087
Accruals and deferred income		<u>639,159</u>	<u>369,096</u>	<u>614,396</u>	<u>322,503</u>
Total liabilities		<u>65,233,860</u>	<u>57,320,654</u>	<u>64,397,103</u>	<u>57,932,780</u>

The notes on pages 18 to 33 form an integral part of the financial statements.

The financial statements were approved by the board of directors and authorised for issue on 22 March 2017

Signed on its behalf by:



R.S. Piper
Director

Company Registration No. 00085588

SOVEREIGN HEALTH CARE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	£	2015 £	£
Cash flows from operating activities					
Cash generated from operations	1	(451,898)		867,719	
Interest paid		-		(1,210)	
Income taxes paid		(433,799)		(425,659)	
Net cash inflow/(outflow) from operating activities		(885,697)		440,850	
Investing activities					
Interest received		1,239,747		35	
Purchase of intangible assets		-		(50,400)	
Purchase of fixed assets		(187,234)		(19,995)	
Proceeds on disposal of tangible fixed assets		17,000		5,066	
Proceeds on disposal of subsidiaries		-		10,000	
Repayment of investment loans and receivables		(4,778,485)		(3,561,676)	
Proceeds on disposal of other investments		2,165,756		2,077,349	
Net cash used in investing activities		(1,543,216)		(1,539,621)	
Financing activities					
Unrealised gain/(loss) on Investments		5,066,381		(585,406)	
Net cash used in financing activities		5,066,381		(585,406)	
Net decrease in cash and cash equivalents		2,637,468		(1,684,177)	
Cash and cash equivalents at beginning of year		8,989,053		10,673,230	
Cash and cash equivalents at end of year		11,626,521		8,989,053	
Relating to:					
Bank balances and short term deposits		11,626,521		9,013,837	
Bank overdrafts		-		(24,784)	

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1 Cash generated from operations	2016	2015
	£	£
Surplus for the year	1,649,611	2,598,876
Adjustments for:		
Income tax expense recognised in income and expenditure	1,306,143	143,553
Investment income	(1,439,041)	(35)
Finance costs recognised in profit or loss	-	1,210
Gain on disposal of tangible fixed assets	(750)	(4,121)
Amortisation and impairment of intangible assets	39,120	33,870
Depreciation and impairment of tangible fixed assets	55,312	45,226
Profit on sale of investments	(2,165,756)	(2,077,349)
Pension scheme non-cash movement	21	(12,785)
Movements in working capital:		
(Increase)/decrease in debtors	(361,489)	(45,534)
Increase/(decrease) in creditors	464,931	184,808
	<hr/>	<hr/>
Cash (lost)/generated from operations	(451,898)	867,719
	<hr/>	<hr/>

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies

Company Information

Sovereign Health Care is a company limited by guarantee, domiciled and incorporated in England and Wales. The registered office is Royal Standard House, 26 Manningham Lane, Bradford, BD1 3DN.

2.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), FRS 103 "Insurance Contracts" ("FRS 103") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The consolidated income and expenditure account and financial position include the financial statements of the company and its subsidiary undertakings made up to 31 December 2016. The results of subsidiaries sold or acquired are included in the profit and loss account up to or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

As permitted by section 408 Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements.

2.2 Going concern

Based upon their detailed analysis, the directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for a period of at least 12 months from the date of these accounts. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

2.3 Earned premiums

Earned premiums represent the proportion of health contributions received in the year relating to cover provided for the year. Unearned premiums are calculated on a time apportionment basis. Premiums are recognised as earned in the month in which the insurance cover is provided, reflecting the monthly renewable nature of the product. Gross premium and earned premium are the same amounts as the business does not have any re-insurance arrangements or amounts due to third parties, but excludes Insurance Premium Tax.

2.4 Claims

Claims payable are recognised in the accounting period in which the event occurs. Provision is made for the estimated cost of claims incurred up to the balance sheet date and outstanding at that date. This estimation is based upon prior claims experience.

2.5 Investment Income

An allocation of the investment return is made between the non-technical and technical accounts for general business to reflect the investment return generated from the retained holding of historical profits.

2.6 Intangible fixed assets

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Development Costs	25% p.a. straight line
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SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies (continued)

2.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Tenants additions	10% p.a. straight line
Computer equipment	25% p.a. straight line
Office furniture and equipment	20% p.a. straight line
Motor vehicles	25% p.a. straight line

Properties whose fair value can be measured reliably are held under the revaluation model and are carried at a revalued amount, being their fair value at the date of valuation. The fair value of the land and buildings is usually considered to be their market value.

Revaluation gains and losses are recognised in other comprehensive income and accumulated in equity, except to the extent that a revaluation gain reverses a revaluation loss previously recognised in profit or loss or a revaluation loss exceeds the accumulated revaluation gains recognised in equity; such gains and loss are recognised in profit or loss.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income and expenditure account when realised.

2.7 Fixed asset investments

Investments listed on a recognised stock exchange are held at current market value, with any changes being recognised through the income and expenditure account.

2.8 Impairment of fixed assets

At each reporting end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried in at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies (continued)

2.10 Financial assets

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial assets are recognised in the company's statement of financial position at initial cost or earned when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Other financial assets classified as fair value through profit or loss are measured at fair value.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in income and expenditure account as identified.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

2.11 Financial liabilities

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Other financial liabilities classified as fair value through profit or loss are measured at fair value.

Other financial liabilities

Other financial liabilities, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies (continued)

2.12 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year and using tax rates that have been enacted or substantively enacted by the reporting end date. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using the latest enacted rate of corporation tax. This allows the company to offset its unrealised losses on investments against its corporation tax liability and carry forward any unutilised losses.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets are only recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

2.13 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

2.14 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

2.15 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies (continued)

2.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

3 Accounting estimates and judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Critical accounting judgements in applying the Company's accounting policies

Claims provision

Provision is made for the cost of claims incurred up to the balance sheet date and outstanding at that date. Calculation of the provision requires judgement and is based upon prior claims experience.

Key sources of estimation uncertainty

Amortisation and depreciation

The calculation of amortisation and depreciation on intangible and tangible fixed assets requires estimation of the expected useful life of the asset and the residual value. The current year charge and cumulative position are disclosed in note 12.

4 Gross premiums written

The total turnover of the group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

	2016	2015
	£	£
Gross contributory income	12,341,054	11,993,996
less: Personal Accident contributions	(312,172)	(418,581)
less: Health Cheques Direct contributions	(210,545)	(230,884)
less: Positive Care Contributions	(140,557)	(153,808)
less: Insurance premium tax	(1,024,832)	(687,973)
	<u>10,652,948</u>	<u>10,502,750</u>

The Group has a single class of income and as such gross written and earned premium, gross claims and operating expenses are all identifiable within the income and retained earnings account on pages 13 and 14.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

5 Net operating expenses	2016	2015
	£	£
Acquisition costs	1,268,967	1,232,263
Administration	2,509,162	2,360,443
	<u>3,778,129</u>	<u>3,592,706</u>
 Operating profit is stated after charging:		
Amortisation of intangible assets	(44,263)	33,870
Depreciation of tangible assets	55,312	45,226
Operating lease rentals		
- Plant and machinery	27,953	33,490
 and after crediting:		
Profit on disposal of tangible assets	(750)	(4,121)
 Auditors' remuneration (inclusive of VAT)		
	2016	2015
	£	£
Fees payable to the group's auditor for the audit of the company's annual accounts	36,000	5,950
Fees payable to the group's auditor for the audit of the subsidiary companies annual accounts	12,000	3,025
Other non audit services	-	22,325
Audit related assurance services	48,000	-
	<u>96,000</u>	<u>31,300</u>

During 2016 as a result of the changing legislation, the Group took the decision to move audit firms in order to comply with the regulatory requirements for an external audit opinion relating to the Solvency II reporting. Following a detailed process KPMG LLP were selected as the Groups audit service provider.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2016	2015
	Number	Number
Sales and marketing	21	22
Customer services	10	7
Claims	8	12
Business services	4	3
Administration and finance	6	7
	<u>49</u>	<u>51</u>

Their aggregate remuneration comprised:

	2016	2015
	£	£
Wages and salaries	1,409,945	1,339,266
Social security costs	169,065	151,907
Other pension costs	85,855	62,188
Personal accident and health insurance	32,115	30,338
	<u>1,696,980</u>	<u>1,583,699</u>

7 Directors' remuneration

	2016	2015
	£	£
Remuneration for qualifying services	349,388	342,533
Company pension contributions to defined contribution schemes	18,279	18,106
	<u>367,667</u>	<u>360,639</u>

Remuneration disclosed above include the following amounts paid to the highest paid director:

Remuneration for qualifying services	155,601	155,225
Contribution to defined contribution pension	10,760	10,533
	<u>166,361</u>	<u>165,758</u>

8 Investment income

	2016	2015
	£	£
Income from listed investments	1,332,718	1,242,070
Bank and other interest	106,323	109,360
Realised gain on investments	2,165,756	2,077,349
	<u>3,604,797</u>	<u>3,428,779</u>

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	106,323	109,360
	<u>106,323</u>	<u>109,360</u>

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

9 Interest payable and similar charges	2016 £	2015 £
On overdue tax	-	1,210
	<u>-</u>	<u>1,210</u>
10 Taxation	2016 £	2015 £
Current tax		
UK corporation tax on profits for the current period	1,306,143	184,435
Adjustments in respect of prior periods	-	(40,882)
	<u>1,306,143</u>	<u>143,553</u>
Total current tax		
Deferred tax	-	-
	<u>1,306,143</u>	<u>143,553</u>
Total tax		
	<u><u>1,306,143</u></u>	<u><u>143,553</u></u>

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

	2016 £	2015 £
Profit before taxation on continued operations	8,022,134	2,157,022
	<u>8,022,134</u>	<u>2,157,022</u>
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax of 20% (2015 - 20%)	1,604,427	431,404
	<u>1,604,427</u>	<u>431,404</u>
Effects of:		
Non deductible expenses	(119)	46
Depreciation add back	18,886	15,819
Capital allowances	(39,077)	(16,345)
Adjustment to previous periods	-	(40,882)
Dividends and distributions received	(260,974)	(248,414)
Other tax adjustments	(17,000)	1,925
	<u>(298,284)</u>	<u>(287,851)</u>
Total current tax		
	<u>1,306,143</u>	<u>143,553</u>
Total tax		
	<u><u>1,306,143</u></u>	<u><u>143,553</u></u>

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

11 Profit for the financial year

As permitted by section 408 Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year is made up as follows:

	2016	2015
	£	£
Holding company's profit for the financial year	5,505,755	1,904,683
	<hr/>	<hr/>

12 Intangible fixed assets

Group and Company	Development Cost £
Cost	
At 1 January 2016	156,480
Additions - internally developed	-
At 31 December 2016	<hr/> 156,480
Amortisation and impairment	
At 1 January 2016	62,600
Amortisation charged for the year	39,120
At 31 December 2016	<hr/> 101,720
Carrying amount	
At 31 December 2016	<hr/> 54,760
At 31 December 2015	<hr/> <hr/> 93,880

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

13 Tangible fixed assets

Group

	Freehold land and buildings £	Tenant's additions £	Computer equipment £	Office furniture and equipment £	Motor vehicles £	Total £
Cost						
At 1 January 2016	670,000	38,783	214,452	180,471	30,000	1,133,706
Additions	-	19,331	121,250	10,186	36,467	187,234
Disposals	-	(9,134)	(123,351)	(149,756)	(30,000)	(312,241)
Market Value Adjustment	85,000	-	-	-	-	85,000
At 31 December 2016	755,000	48,980	212,351	40,901	36,467	1,093,699
Depreciation						
At 1 January 2016	-	26,924	169,879	164,352	12,500	373,655
On disposals	-	(9,134)	(123,351)	(149,756)	(13,750)	(295,991)
Charge for the year	-	4,450	35,215	6,800	8,847	55,312
At 31 December 2016	-	22,240	81,743	21,396	7,597	132,976
Carrying amount						
At 31 December 2016	755,000	26,740	130,608	19,505	28,870	960,723
At 31 December 2015	670,000	11,859	44,573	16,119	17,500	760,051

The fair value of the property, plant and equipment has been arrived at on the basis of a valuation carried out on 27 June 2016 by Eddisons Chartered Surveyors, who are not connected with the company. The valuation was made on an open market value basis by reference to market evidence of transaction prices for similar properties. The directors consider that the fair value of the property has not significantly altered since that date.

If properties were stated on an historical cost basis rather than a fair value basis, the amounts would have been subject to depreciation over a period of 50 years and included in the accounts as follows:

	2016 £	2015 £
Cost	1,750,597	1,750,597
Accumulated depreciation	(1,085,370)	(1,050,358)
Carrying amount	665,227	700,239

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

13 Tangible fixed assets continued

Company

	Tenants additions £	Computer equipment £	Office furniture and equipment £	Motor vehicles £	Total £
Cost					
At 1 January 2016	38,783	214,452	180,471	30,000	463,706
Additions	19,331	121,250	10,186	36,467	187,234
Disposals	(9,134)	(123,351)	(149,756)	(30,000)	(312,241)
At 31 December 2016	<u>48,980</u>	<u>212,351</u>	<u>40,901</u>	<u>36,467</u>	<u>338,699</u>
Depreciation					
At 1 January 2016	26,924	169,879	164,352	12,500	373,655
On disposals	(9,134)	(123,351)	(149,756)	(13,750)	(295,991)
Charge for the year	4,450	35,215	6,800	8,847	55,312
At 31 December 2016	<u>22,240</u>	<u>81,743</u>	<u>21,396</u>	<u>7,597</u>	<u>132,976</u>
Carrying amount					
At 31 December 2016	<u>26,740</u>	<u>130,608</u>	<u>19,505</u>	<u>28,870</u>	<u>205,723</u>
At 31 December 2015	<u>11,859</u>	<u>44,573</u>	<u>16,119</u>	<u>17,500</u>	<u>90,051</u>

14 Investments

Group

	Current assets		Fixed assets	
	2016 £	2015 £	2016 £	2015 £
Listed on a recognised investment	51,594,438	46,816,053	-	-
Unlisted investments	-	-	2,519	2,519
	<u>51,594,438</u>	<u>46,816,053</u>	<u>2,519</u>	<u>2,519</u>

Company

	Current assets		Fixed assets	
	2016 £	2015 £	2016 £	2015 £
Investments in subsidiaries	-	-	10,100	93,383
Balances due from subsidiaries	755,000	1,741,246	-	-
Listed on a recognised investment	51,594,438	46,816,053	-	-
Unlisted investments	-	-	2,519	2,519
	<u>52,349,438</u>	<u>48,557,299</u>	<u>12,619</u>	<u>95,902</u>

The company has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit or loss.

The company has provided ongoing credit facilities to its subsidiary business, and as such classifies the balances due from subsidiaries as a current asset.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

14 Investments (continued)

Movements in fixed asset investments

Group	Shares £	Total £
Cost or valuation		
At 1 January 2016	2,519	2,519
Additions	-	-
Valuation changes	-	-
Disposals	-	-
	<u>2,519</u>	<u>2,519</u>
Carrying amount		
At 31 December 2016	2,519	2,519
At 31 December 2015	<u>2,519</u>	<u>2,519</u>
Company	Shares £	Total £
Cost or valuation		
At 1 January 2016	95,902	95,902
Additions	100	100
Valuation changes	(83,383)	(83,383)
Disposals	-	-
	<u>12,619</u>	<u>12,619</u>
Carrying amount		
At 31 December 2016	12,619	12,619
At 31 December 2015	<u>95,902</u>	<u>95,902</u>
Group and company	2016 £	2015 £
Listed on a recognised investment exchange:		
Share or other variable yield securities and units in unit trusts	34,010,803	34,493,614
	<u>34,010,803</u>	<u>34,493,614</u>

Holdings of more than 20%

Company	Percentage of Shares held	Nature of business
Brentserve Limited	100	Property management
Sovereign Health and Insurance Services Limited	100	Insurance intermediary
Sovereign Assured Partners Limited	100	Insurance agent and broker

The above companies registered office are all Royal Standard House, 26 Manningham Lane, Bradford, BD1 3DN.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

15 Financial instruments

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Carrying amount of financial assets				
Debt instruments measure at fair value	12,324,795	9,399,712	11,487,752	10,598,549
Equity instruments measured at fair value	51,596,957	46,818,572	51,607,057	46,911,955
	<u>63,921,752</u>	<u>56,218,284</u>	<u>63,094,809</u>	<u>57,510,504</u>
Carrying amount of financial liabilities				
Measured at amortised cost	2,352,027	1,911,261	2,033,012	1,842,693

All financial assets are held at fair value. Fair value is determined using the valuation from the market price on the date of the financial statements. Changes in fair value are recognised through the Income and Expenditure account. FRS 102 fair value measurement establishes a fair value hierarchy that categories into three levels the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs into the valuation technique (Level 3).

Level 1 : quoted prices in active markets for identical assets

Level 2 : inputs other than quoted prices (per level 1) that are observable for the assets

Level 3 : valuation technique based on an arms length pricing for the asset.

All financial instruments held by the Company are held in cash deposits with recognised counterparties and are neither past due or deemed to be impaired or invested in globally traded equity holdings, both of which are subject to tier 1 pricing for fair value calculations.

Debt instruments with credit institutions of £12,324,795 are all due within 12 months and the carrying value is deemed a reasonable approximation of fair value.

The significant risks the company is exposed to in respect to its financial assets are described below.

Market Risk

The company is exposed to market risk in respect of its financial assets carried at fair value. These assets were held at £51,596,957 (2015 : £46,818,572) and are traded on regulated financial markets, both in the UK and abroad. Management of the investments is undertaken utilising the advice of third party wealth management professionals on a recommendation basis. Movements in the regulated markets can drive volatility within the valuation of these assets.

Liquidity Risk

Debt instruments held with credit institutions are managed internally and amounts are placed on deposit for periods of up to 12 months in such a manner to ensure that sufficient funds are always available to meet the short term operational expenditure, investment decisions and any other liabilities as they fall due. Total deposits of £12,324,795 (2015 : £9,399,712) are held with a number of counterparties and terms. The maturity profile of all amounts is within 12 months and for 2016 is as follows :

	£
Greater than 6 months	1,071,164
Between 2 and 6 months	2,139,009
Less than 1 month	9,114,622
	<u>12,324,795</u>

The balance identified as less than 1 month includes cash immediately available on call of £2,378,422.

Credit Risk

The company's exposure to credit risk is not limited to the balances identified in the liquidity risk section, but also covers the carrying value of certain other financial assets, namely contributors premiums due not received (included within debtors) of £698,274 (2015 : £385,145).

The company is exposed to credit risk through the potential for default on any of the balances due. To mitigate the risk, the company performs appropriate levels of investigation over potential partners, with credit institution deposits in particular being subject to the requirements laid out in the appropriate risk policies.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

16 Loans and overdrafts

	2016 £	Group 2015 £	2016 £	Company 2015 £
Bank overdrafts	-	24,784	-	24,784

Analysis of loans and overdrafts

Borrowings are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date.

17 Creditors

Due within one year

	2016 £	Group 2015 £	2016 £	Company 2015 £
Loans and overdrafts	-	24,784	-	24,784
Corporation tax	940,034	94,480	924,626	67,272
Taxation and social security	296,535	272,214	296,535	272,214
Trade creditors	322,214	129,425	34,480	114,817
	<u>1,558,783</u>	<u>520,903</u>	<u>1,255,641</u>	<u>479,087</u>

18 Provisions for other risks and charges - Financial Services compensation levy

Group and company

	2016 £	2015 £
At beginning of year	102,266	102,266
Transfer from Technical Account	-	-
At end of year	<u>102,266</u>	<u>102,266</u>

19 Retirement benefit schemes

Defined contribution schemes

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The charge to profit and loss in respect of defined contribution schemes was £85,855 (2015 - £80,293).

The company operates a further defined contribution scheme for a former employee. The assets of the scheme are held separately from those of the company in an independently administered fund. This fund has a deficit of assets to which Sovereign Health Care from 1 April 2011 is making an annual contribution of:

- £4,602.33 per annum for the two years from 1 April 2015 to 31 March 2017

- £4,813.91 per annum for the two years from 1 April 2017 to 31 March 2019

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

20 Retained earnings

	Group		Company	
	2016 £	2015 £	2016 £	2015 £
At beginning of year	54,940,433	52,926,964	55,648,335	53,743,652
Surplus on income and expenditure	6,715,991	2,013,469	5,505,755	1,904,683
At end of year	<u>61,656,424</u>	<u>54,940,433</u>	<u>61,154,090</u>	<u>55,648,335</u>

21 Operating lease commitments

Lessee

Operating lease payments represent rentals payable by the group for motor vehicles. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

At the reporting end date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £	2015 £
Within one year	26,471	26,471
Between two and five years	2,206	33,088
	<u>28,677</u>	<u>59,559</u>

22 Solvency II Capital Surplus - Unaudited

Our capital surplus is the amount of capital resources (referred to as Own funds) that the Group holds in excess of its capital requirement. The calculation of the Group's capital resources and requirement is governed by the Solvency II regulatory regime. Under Solvency II, every insurer is required to identify its key risks – e.g. that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. The capital required to withstand these outcomes is the Solvency Capital Requirement (SCR). The SCR is calibrated so that the likelihood of a loss being greater than the SCR in one year is less than 1 in 200. Around 90% of the Group SCR relates to retained earnings (Own Funds) invested in order to generate both income and capital growth that support the Group's charitable purposes and underlying financial strength.

We are strongly capitalised with a Solvency II capital surplus of £40.4m (2015 : £34.3m) representing a solvency cover of 291% (2015: 266%). Capital requirements have increased by £0.6m as a result of growth in the value of the investment portfolio.

The Solvency II Investor view capital requirement of £40.4m would change by an amount equal or opposite to £4.0m or less following a:

- 20% rise or fall in equities (capital surplus would increase by approximately £6.0m), or
- 100% rise or fall in the volume of insurance underwritten

	2016 £	2015 £
Own Funds - Group	61,656,424	54,940,433
Solvency Capital Requirement (SCR)	(21,216,218)	(20,620,006)
Solvency II capital surplus	<u>40,440,206</u>	<u>34,320,427</u>
Solvency Cover Ratio	<u>291%</u>	<u>266%</u>