SOVEREIGN HEALTH CARE

(AN INCORPORATED COMPANY LIMITED BY GUARANTEE)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Company Registration No. 00085588 (England and Wales)

Established 1873

SOVEREIGN HEALTH CARE

DIRECTORS AND ADVISERS

Directors	C. M. Hudson - Chairman S. M. Cummings – Vice Chairman Dr. R. E. Dugdale – Senior Independent Director M. S. Bower R. S. Piper J. S. Sellars J. C. Fortune S. R. Davies D. Child (resigned 22 March 2017)
Secretary	J. S. Sellars
Chief executive	R. S. Piper
Life members	E. Bentham G. A. Clarkson J. L. Hellawell D. J. Lewis F. L. Morgan M. Austin D. Child
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 Svenska Handelsbanken AB 1st Floor Centre of Excellence Hope Park Bradford BD5 8HH
Solicitors	Gordons LLP Piccadilly 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 (shared)

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CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

I was delighted to take up my second tenure as Chair of Sovereign Health Care having previously served as Chair between 2006 and 2010, and it is fair to say the difference in our industry due to regulation between 2006 and today is immense.

Regulation and its consequences (both intended and unintended) such as increased costs have made it harder for our executive and management team to deliver our trading objectives, business plan and ensure our products and services are just as relevant and more importantly affordable as they were 10 or 12 years ago. Their work throughout the year has also focused on process and efficiency improvements by leveraging the benefits of the policy administration system that was first introduced in 2015.

2017 was a year where our plans were to consolidate our customer numbers whilst at the same time, investing heavily in both finance and time to further improve our IT capability. This investment has been made and we will shortly launch our customer portal allowing customers to self-serve their policy management and submit claims on line should they choose to do so. This will be followed by a corporate portal and other IT initiatives with the aim of achieving process and cost efficiencies.

Unfortunately, an unplanned need to pass on an increase in Insurance Premium Tax reduced the volume of our marketing activity, resulting in a small dip in overall customer numbers.

Sovereign continue to enjoy a very healthy capital position with our investment portfolio and cash deposits exceeding £66.4m and retained earnings of around £65.4m. This amount is significantly higher than our solvency requirement and allows us to focus on delivering quality and reliable outcomes for our customers, while at the same time remain a low risk to both of our regulators, the Prudential Regulation Authority and the Financial Conduct Authority.

We review our corporate governance arrangements regularly and are well placed to meet the forthcoming requirements of the Senior Manager and Certification Regime that will be introduced in 2018. During the year we saw the retirement of Dennis Child from the Board and I thank Dennis for his service which included a period as Chair of the Board.

Once again Sovereign Health Care made substantial donations of almost £500,000 (which represents around 5% of our annual turnover) to charitable causes in the local community. The grants we make can vary greatly in amount and are designed to positively touch people's lives and make a difference. Following the decision in 2016 to close the Sovereign Charitable Trust, I am delighted that we have continued the charitable activity in a structured fashion through the recently formed community fund, ensuring our donations are subject to similar governance arrangements as the trading company.

2017 saw the first "formal" Day 1 reporting under the Solvency II regime which came into force in 2016. This has led to extra work in producing the submission, not to mention the high expense of the quality assurance required through an external audit. Our National Supervisor, the Prudential Regulation Authority is one of the only EU supervisors to continue to require this external audit of regulatory reporting when moving to the live Solvency II environment.

It remains an unfortunate side effect 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 we make in investing surplus assets. The success of our investment strategies and increase in our wealth increases our capital requirement under the Solvency II regime. We are fortunate that Sovereign Health Care holds significantly more capital than the specific requirement and we will continue to strive to do so.

In closing I would like to offer my thanks to the executive team, senior management and staff of Sovereign alongside my fellow directors for their ongoing support.

C M Hudson - Chairman
Director
21 March 2018

SOVEREIGN HEALTH CARE

CHIEF EXECUTIVE'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

While 2017 was a year full of surprises in many areas of the United Kingdom and the world, I am pleased to report that it was another successful year for our business, based in Bradford, West Yorkshire.

We had our challenges, including our first Solvency II submission and the implementation of the 2% increase in Insurance Premium Tax (IPT) that became effective on 1st June 2017. Our Solvency II Return demonstrated that Sovereign Health Care continues to be a well-capitalised insurer, more than capable of withstanding shocks to both the economy and financial markets and easily able to cover its liabilities, namely paying claims to our loyal customers. Paying claims was prominent during the year as we returned over £7.2m to our customers processing over 219,000 transactions.

The implementation of the 2% increase in IPT was completed on time, however the cost of implementation, the physical resource required, plus second guessing what the Chancellor was likely to do in his 2017 budget diverted us from some of our other plans. The increase caused a reaction with customers and I had numerous conversations with both individual and corporate customers to explain the rationale of our approach to this and historic rises in IPT. Fortunately, the rate remained unchanged after the 2017 budget, and we continue to make representation to the Treasury, through our trade body, the Association of Financial Mutuals (AFM) about the regressive nature of IPT and the affordability impact on both individuals and businesses that this tax has. Health cash plans are designed to help people afford everyday health care, and businesses to support health and wellbeing in the workplace. Working with the AFM, a piece of work is being prepared to demonstrate how our sector provides benefits that saves the NHS more than the value of the tax raised by IPT. Health insurance is often described as for the wealthy only, however cash plans have traditionally appealed to people who access necessary and everyday health care, and even perceived small increases in premiums can begin to make them unaffordable.

We are a traditional Yorkshire based company aiming to make a positive difference to our customers and the local communities that we choose to donate to. It goes without saying that it is a delight to report donations to health and wellbeing causes of almost £500,000 plus some advance commitments for 2018. As usual we supported many local NHS hospitals and for the first time Leeds Teaching Hospitals, reflecting the growth and location of our customers and the NHS services they use. Furthermore, our donations touch many areas of deprivation and offer help where it is most needed, again adding fuel to our argument that our sector aims to help promote health, wellbeing and development, much better than the tax collected through IPT.

Our field team had another great year, spreading the message of how Sovereign Health Care can help people manage their everyday health care, supported by our customer relations team in our back office. While we retain and will retain a face to face presence with our customers, we are mindful of the changes in society and the growth of internet transactions. As promised in the 2016 report, we continued to invest heavily in our IT infrastructure with the aim of putting people in control of their relationship with us, and ensuring we are fit for purpose with the challenges of cyber security. During the first quarter of 2018, we will launch our customer portal allowing for online claims submission and management of policies, for those customers who choose to use it.

I mentioned above how well-capitalised we are and our consolidated statement of income and retained earnings demonstrates a healthy £3.7m increase on 2016 reserves.

It goes without saying that the success of Sovereign Health Care is due to the efforts and resilience of our team here in Bradford, and our loyal customers throughout the UK. I offer sincere thanks to both our staff and customers and commit us to continue to make a positive difference to health and wellbeing in Bradford, Leeds, Yorkshire and beyond.

R S Piper - Chief Executive
Director
21 March 2018

The directors present the strategic report and financial statements for the year ended 31 December 2017.

Review of the business

	2017	2016
	£	£
Premium Income	11,344,404	11,268,441
Underwriting Fees	(510,405)	(571,017)
Claims	(7,282,683)	(7,057,496)
Operating Expenses	(4,234,109)	(3,788,129)
Net Result	**(682,793)**	**(148,201)**
Investment Growth and Dividends	5,490,023	8,671,178
Charitable Donations	(485,833)	(500,843)
Taxation	(588,044)	(1,306,143)
Retained Result for the year	**3,733,353**	**6,715,991**
Retained Reserves at 31 December 2017	**65,389,777**	**61,656,424**

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 reports from the Chairman and Chief Executive.

Key performance indicators (KPIs)

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

	2017	2016
Earned Premium Growth	£ 158,551	£ 130,574
Underwriting results (technical income less claims)	£ 3,551,316	£ 3,639,928
Operational expenses relative to Earned Premium	39%	36%
Value of Reserves	£65,389,777	£61,656,424

Risk dashboard (key items included in the Solvency Financial Condition Report)
External compliance reports

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 all KPIs.

During 2017 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 ongoing regulatory reporting requirements were successfully provided to the appropriate authorities.

Business environment

During 2017, the general improvement in the UK economy, noted in 2016 and 2015, continued and this was supported by the number of individuals joining the scheme and using their cash plan for their health care. The positive position in relation to joiners has been offset by individuals leaving the schemes, these lapses have offset the joiners to give a small net reduction in total policies. The current positive economic outlook is reflected in the stock market movement towards record highs at the end of the year. The company was in an excellent position to benefit from this, the gains in other global exchanges and the relative weakness in the pound all contributing towards the gain made within the investment portfolio in the year.

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.

Strategy

During the year the Board continued to focus on following the strategy laid out in the most recent review and confirmed that the following principles remain 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 be able to give a minimum of £500,000 each year in charitable donations from investment returns
- To deliver value for money and useable products to its customers
- To remain a low compliance risk to our regulators

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.

Growth in a profitable manner

We distribute the company's 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

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.

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.

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.

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

Low compliance risk to our regulators

By default we are a low risk business due to the types of products and benefits offered. As the contracts are 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 donations and it is important that the risk appetite reflects the importance of staying true to our origins.

The compliance and governance and risk and audit sub groups play a leading role in recommending to the main board how to manage and monitor the risks which are part of controlling the business, with specific focus on the agreed key risks.

Specific activity planned for 2018 includes the following;

• Complete the independent 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 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.

Insurance Risk

As a general insurer Sovereign writes short term monthly renewable contracts. These contracts individually and collectively present a relatively small financial risk when compared to the other principle risks noted below. However, as an insurer we do review, calculate and manage our potential insurance exposures and ensure that we hold sufficient capital in available cash in a mixture of immediately available, short term or longer term maturity deposits to ensure that sufficient cash will be available to meet the requirements of 12 months claims as they fall due.

Plans are priced on a 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 Sovereign. There is an increasingly complex regime of regulation with a number of bodies responsible for different elements of the rules which must be complied with.

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 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 has 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 six board meetings are held each year. Supporting them are five specific sub groups relating to the commercial business and one to the charitable donations.

Audit and Risk

The audit and risk sub-group consists of three non-executives and two executive directors. This group review and discuss the following:

- External Auditor performance and recommend appointment of auditors
- Identification of key processes
- Internal audit function
- Risk matrix and mitigation
- Risk appetite
- Management Information and risk dashboard to support board
- Disaster recovery

This sub group considers the appropriateness and adequacy of the Group's internal controls to monitor, identify and report on the risks deemed key to the business including financial reporting risk. In addition the sub group provides the Board with a view as to the approach and appropriateness of the internal and external audit functions. In addition the chair of the sub group is the direct point of contact for both the internal and external auditors to report any items of concern highlighted throughout the course of the work undertaken.

The sub group will produce specific proposals for the main Board and when required identify immediate action required to mitigate/eliminate significant risk.

Finance and Remuneration

The finance 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
- Individual Capital Assessment /Own Risk Solvency Assessment
- Regulatory returns (including Solvency II capital requirement projections)
- 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

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.

Compliance and Governance

The compliance 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
- Regulatory developments
- 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.

Systems and IT

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-group in 2016 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, two non-executive directors, the Head of IT and the Marketing Manager.

This group review and discuss the following;

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

This sub group makes specific proposals for approval by the Board, the sub group can make financial decisions up to £25,000, although these will additionally be ratified by the main board.

Community Funding

The community funding sub group includes one executive and two non-executive 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 Board
- Annual standing lists
- PR associated with the charitable activity

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 funding is derived from income generated from the commercial company's investment portfolio.

Solvency II Capital Position

Our capital surplus is the amount of capital resources (referred to as Own Funds) that are held in excess of its capital requirement. The calculation of the 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 SCR relates to Own Funds invested in order to generate both income and capital growth that support the charitable activities and underlying financial strength.

We are strongly capitalised with a Solvency II capital surplus of £41.1m (2016 : £40.4m) representing a solvency cover of 269% (2016: 291%). Capital requirements have increased by £3.0m as a result of growth in the value of the investment portfolio and a shift in the weighting of the assets to include more overseas equity.

The Solvency II capital requirement of £41.1m would change by an amount equal or opposite to 15% or less following a:

- 20% rise in equities (Solvency II capital surplus would increase by approximately £5.1m);
- 20% fall in equities (Solvency II capital surplus would reduce by approximately £5.5m); or
- 100% rise or fall in the volume of insurance underwritten (Solvency II capital surplus would move by less than £0.5m)

	2017	2016
	£	£
Own Funds - Group	65,389,777	61,656,424
Solvency Capital Requirement (SCR)	(24,246,182)	(21,216,218)
Solvency II capital surplus	**41,143,595**	40,440,206
Solvency Cover Ratio	**269%**	291%

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 2017, average attendance at all board meetings and sub groups was 87%.

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 17 to 18.

It is proposed that the retained surplus of £3,733,353, representing the surplus on activities after tax is transferred to the group's reserves, giving a retained reserves of £65,389,777.

Investments and tangible assets

The changes in fixed assets and investments 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

C. M. Hudson - Chairman
Director
21 March 2018

The directors present their report and financial statements for the year ended 31 December 2017.

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 2017:

C. M. Hudson - Chairman
Dr. R. E. Dugdale - Senior Independent Director
M. S. Bower
S. M. Cummings
R. S. Piper
J. S. Sellars
S. R. Davies
J. C. Fortune
D. Child (resigned 22nd March 2017)

The Directors are all considered to be key management personnel. All transactions with directors are at arms length terms.

Political and charitable contributions

The group does not make any political contributions. During the year the company made charitable contributions of £485,833 (2016 : £500,843).

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, the directors report and the financial statements

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

Company law requires the directors to prepare Group and parent Company 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

C. M. Hudson - Chairman
Director
21 March 2018

KPMG

Independent auditor's report

to the members of Sovereign Health Care

1. Our opinion is unmodified

We have audited the financial statements of Sovereign Health Care ("the Company") for the year ended 31 December 2017 which comprise the consolidated statement of income and retained earnings, consolidated and company statement of changes in equity, consolidated and company statement of financial position and consolidated statement of cash flows, and the related notes, including the accounting policies in note two.

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 2017 and of the Group's profit for the year then ended;

— have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were appointed as auditor by the board on 28 July 2016. The period of total uninterrupted engagement is for the two financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£120k (2016: £250k) 0.96% (2016: 2.00%) of gross premiums written
Coverage	100% (2016: 100%) of group surplus on ordinary activities before tax

Risks of material misstatement		**vs 2016**
Recurring risks	Incurred but not reported claims provision (IBNR)	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters for both the Group and Parent company, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
IBNR provision (Group and Parent: £761k; 2016: £702k) *Refer to page 23 (accounting policy) and page 37 (financial disclosures).*	**Subjective estimate** Setting the provision for the cost of claims incurred but not reported requires the group to use actuarial techniques to estimate the value, volume and timing of receipt of claims incurred but not reported to the group at the balance sheet date. This process gives rise to the risk of estimation uncertainty in the setting of the IBNR provision. The risk relates to all product lines as the provision is required for all incurred but not reported claims.	Our procedures included: — **Our actuarial expertise:** With assistance from our own actuarial specialists, we critically assessed the IBNR provision methodology by comparing it to established actuarial techniques; — **Independent re-performance:** We re-created the group's claims triangles using audited claims data to verify that they were accurate. We verified the premiums and claims data used by the group to derive the key assumption of the ultimate loss ratio back to audited data. We calculated our own estimate of the IBNR provision and compared it to the group's own calculation, and considered the impact of any significant differences; — **Sensitivity analysis:** We performed a sensitivity analysis on the key assumptions, including the lag between the timing of the claim event and the date of notification and the ultimate loss ratio to critically assess the quantum of impact on the IBNR provision arising from a range of possible outcomes; and — **Historical comparison:** We compared the actual claims paid in 2017 which related to claims incurred in 2016, with the value of the IBNR provision held at 31 December 2016 to retrospectively confirm that the IBNR provision methodology has historically produced an accurate valuation. **Our results** — We found the resulting estimate of the IBNR provision to be acceptable (2016: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £120k (2016: £250k), with reference to a benchmark of gross premiums written (of which it represents 0.96% (2016: 2.00%). We consider gross premiums written to be the most appropriate benchmark as it provides a more stable measure year on year than group surplus on ordinary activities before tax.

Materiality for the parent company's annual accounts as a whole was set at £110k (2016: £230k) determined with reference to a benchmark of gross premiums written, of which it represents 0.92% (2016: 1.97%).

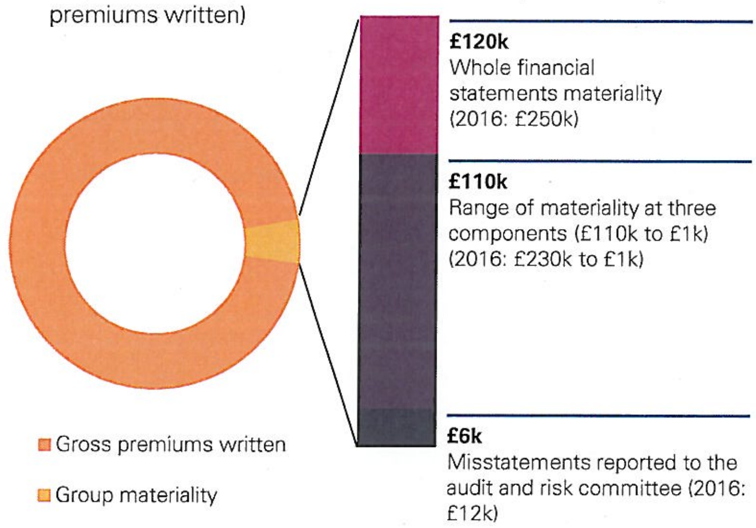
Materiality for the group and parent company was set reflecting the Company's new status as an EU Public Interest Entity under the FRC's Revised Ethical Standard 2016.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £6k (2016: £12k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

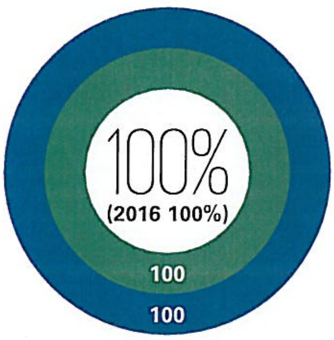
Of the group's three (2016: three) reporting components, we subjected three (2016: three) to full scope audits for group purposes.

Gross premiums written
£12.5m (2016: £12.3m, Gross premiums written)

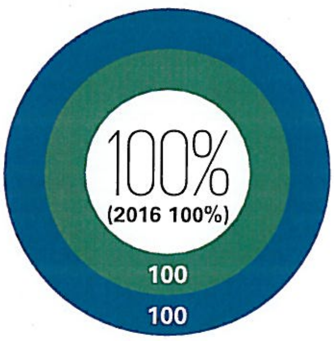
Group Materiality
£120k (2016: £250k)



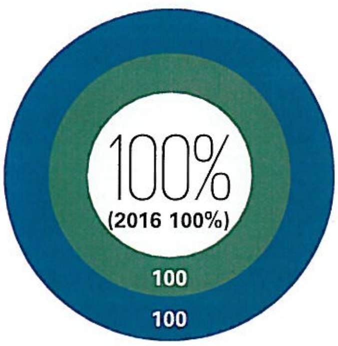
Group gross premiums written



Group surplus on ordinary activities before tax



Group total assets



Full scope for group audit purposes 2017

Full scope for group audit purposes 2016

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent Company; 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 10, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company'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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital recognising the financial and regulated nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Andrew Jones

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

21 March 2018

SOVEREIGN HEALTH CARE

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	£	2017 £	£	2016 £
Technical Account - General Business					
Gross premiums written	4	10,772,125		10,652,948	
Change in gross provisions for unearned premiums		(8,407)		(47,781)	
			10,763,718		10,605,167
Other technical income					
Contributions received:					
Personal Accident	4	245,127		312,172	
Health Cheques Direct	4	208,776		210,545	
Positive Care	4	126,783		140,557	
Less: Underwriting premiums		(510,405)		(571,017)	
			70,281		92,257
Allocated investment return transferred from the non technical account	8		1,383,689		1,439,041
			12,217,688		12,136,465
Claims incurred					
Claims paid gross		(7,224,302)		(7,120,443)	
Change in the gross provision for claims		(58,381)		62,947	
			(7,282,683)		(7,057,496)
Net operating expenses	5		(4,226,800)		(3,788,129)
Change in other provisions	19		(5,455)		-
			(11,514,938)		(10,845,625)
Balance on the technical account for general business			702,750		1,290,840

The notes on pages 22 to 39 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Non-technical Account			
Balance on the technical account for general business		702,750	1,290,840
Investment Income	8	5,270,596	3,604,797
Investment return allocated to technical account		(1,383,689)	(1,439,041)
Interest payable	9	(1,854)	-
Unrealised gains/(losses) on investments		219,427	5,066,381
Charitable donation		(485,833)	(500,843)
Surplus on ordinary activities before taxation		4,321,397	8,022,134
Tax on surplus on ordinary activities	10	(588,044)	(1,306,143)
Surplus on ordinary activities after taxation		3,733,353	6,715,991
Retained earnings at 1 January		61,656,424	54,940,433
Retained earnings at 31 December		65,389,777	61,656,424

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

The notes on pages 22 to 39 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 2017

Group	Notes	Profit and Loss reserves £
At 1 January 2016		54,940,433
Year ended 31 December 2016:		
Surplus for the year		6,715,991
Balance at 31 December 2016		61,656,424
Year ended 31 December 2017:		
Surplus for the year		3,733,353
Balance at 31 December 2017		65,389,777

Company		
At 1 January 2016		55,648,335
Year ended 31 December 2016:		
Surplus for the year		5,505,755
Balance at 31 December 2016		61,154,090
Year ended 31 December 2017:		
Surplus for the year		3,643,852
Balance at 31 December 2017		64,797,942

SOVEREIGN HEALTH CARE

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Group 2017	Group 2016 restated	Company 2017	Company 2016 restated
Assets					
Investments					
Intangible assets	12	17,850	54,760	17,850	54,760
Investment in subsidiary	14	-	-	10,100	10,100
Investments	14	53,691,175	51,596,957	53,691,175	51,596,957
		53,709,025	51,651,717	53,719,125	51,661,817
Debtors					
Debtors arising out of direct insurance operations		603,134	698,274	567,161	657,551
Other Debtors	16	1,451	20,408	895,339	773,914
		604,585	718,682	1,462,500	1,431,465
Other Assets					
Tangible assets	13	914,209	960,723	159,209	205,723
Cash at bank and in hand		12,719,554	11,626,521	11,795,813	10,830,201
		13,633,763	12,587,244	11,955,022	11,035,924
Prepayments and accrued income		288,892	276,217	283,370	267,897
Total Assets		**68,236,265**	**65,233,860**	**67,420,017**	**64,397,103**
Liabilities					
Reserves					
Reserves	21	65,389,777	61,656,424	64,797,942	61,154,090
		65,389,777	61,656,424	64,797,942	61,154,090
Technical provisions	17				
Provision for unearned premiums		583,278	575,108	576,997	568,590
Provision for claims outstanding		760,501	702,120	760,501	702,120
		1,343,779	1,277,228	1,337,498	1,270,710
Provision for other risk and charges	19	107,721	102,266	107,721	102,266
Creditors					
Other creditors including taxation and social security	18	901,449	1,558,783	706,593	1,255,641
Accruals and Deferred Income		493,539	639,159	470,263	614,396
Total liabilities		**68,236,265**	**65,233,860**	**67,420,017**	**64,397,103**

The notes on pages 22 to 39 form an integral part of the financial statements. The comparative figures have been restated to reclassify amounts presented within Investments and Other debtors in 2016 into captions consistent with the current year presentation. Further details are provided in note 25.

The financial statements were approved by the board of directors and authorised for issue on 21 March 2018
Signed on its behalf by:

R.S. Piper
Director

Company Registration No. 00085588

SOVEREIGN HEALTH CARE

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2017

			2017		2016 restated
	Notes	£	£	£	£
Cash flows from operating activities					
Cash generated from operations	1		(1,034,272)		(445,969)
Interest paid			(1,854)		-
Income taxes paid			(1,207,541)		(433,799)
Net cash inflow/(outflow) from operating activities			(2,243,667)		(879,768)
Investing activities					
Interest received		1,340,626		1,239,747	
Purchase of fixed assets		(25,455)		(187,234)	
Proceeds on disposal of tangible fixed assets		-		17,000	
Purchase of other investments		(4,530,619)		(3,761,378)	
Proceeds on disposal of other investments		6,552,148		6,209,100	
Net cash inflow/outflow from investing activities			3,336,700		3,517,236
Net increase in cash and cash equivalents			1,093,033		2,637,468
Cash and cash equivalents at beginning of year			11,626,521		8,989,053
Cash and cash equivalents at end of year			12,719,554		11,626,521
Relating to:					
Bank balances and short term deposits			12,719,554		11,626,521

The comparative figures have been restated to accurately reflect the cash flows for the Purchase and sales of investments, and to reclassify Unrealised gains and losses included within the cash flow statement in 2016 to the reconciliation of Cash generated from operations (Note 1). Further details are provided in note 25.

1 Cash generated from operations

	2017	2016 restated
	£	£
Surplus for the year	3,733,353	6,715,992
Adjustments for:		
Income tax expense recognised in profit and loss	588,044	1,306,143
Investment income	(1,383,689)	(1,439,041)
Finance costs recognised in profit or loss	1,854	-
Gain on disposal of tangible fixed assets	-	(750)
Amortisation and impairment of intangible assets	36,910	39,120
Depreciation and impairment of tangible fixed assets	71,990	55,312
Proceeds on sale of investments	(3,886,907)	(2,165,756)
Unrealised gains on Investments	(219,427)	(5,066,381)
Pension scheme non-cash movement	-	21
Movements in working capital:		
(Increase)/decrease in debtors	94,512	(355,560)
Increase/(decrease) in creditors	(70,912)	464,931
Cash (lost)/generated from operations	(1,034,272)	(445,969)

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 2017 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

2 Accounting policies (continued)

2.7 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.

2.8 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.

Unrealised gains or losses represent the difference between the valuation of investments at the statement of financial position date and their value as at the prior year end, or since their purchase if acquired in the year, net of any amounts transferred to realised gains on sale of investments. Realised gains represents the total change in fair value since an investment was acquired, and is calculated using the average cost method. All income on investments excluding realised gains is transferred from the non-technical account on receipt.

When recognizing the gains or losses in relation to investments when adjusting the carrying value to the current market value the average purchase price for the asset is used to determine the realised/unrealised gain or loss. All investment assets are treated as a specific and identifiable pool at the individual holding level for valuation purposes.

2.9 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.

2.10 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

2 Accounting policies (continued)

2.11 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 Group's statement of financial position at initial cost or 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 the 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 the Group transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

2.12 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.

2 Accounting policies (continued)

2.13 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.

2.14 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 in measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

2.15 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.

2.16 Retirement benefits

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

The company has previously operated a defined benefit pension scheme for a former employee. The assets of the scheme were held separately from those of the company in an independently administered fund. The group's proportion of the assets and liabilities of this fund could not be separately determined, and therefore in accordance with FRS 102.28.11, the scheme was accounted for as a defined contribution scheme.

2 Accounting policies (continued)

2.17 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 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 andjudgements

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. The provision held is subject to the movement in the claims loss ratio, volume and average value of claims experienced by the company. The provision will adjust in equal proportion to the change in any or all of these above items.

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.

	2017	2016
	£	£
Gross contributory income	12,527,726	12,341,054
less: Personal Accident Contributions	(245,127)	(312,172)
less: Health Cheques Direct Contributions	(208,776)	(210,545)
less: Positive Care Contributions	(126,783)	(140,557)
less: Insurance premium tax	(1,174,915)	(1,024,832)
	10,772,125	10,652,948

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 17 and 18.

5 Net operating expenses

	2017 £	2016 £
Acquisition costs	1,208,010	1,268,967
Administration	3,018,790	2,509,162
	4,226,800	3,778,129
Operating profit is stated after charging:		
Amortisation of intangible assets	36,910	44,263
Depreciation of tangible assets	71,990	55,312
Operating lease rentals		
Plant and machinery	48,324	27,953
And after crediting:		
Profit on disposal of tangible assets	-	(750)

Auditors' remuneration (inclusive of VAT)

	2017 £	2016 £
Fees payable to the group's auditor for the audit of the company's annual accounts	52,800	36,000
Fees payable to the group's auditor for the audit of the subsidiary companies annual accounts	12,000	12,000
Other Assurance Services - Solvency II	40,200	48,000
	105,000	96,000

6 Employees

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

	2017 Number	2016 Number
Sales and Marketing	19	21
Customer services	7	10
Claims	10	8
Business Services	4	4
Administration and finance	8	6
	48	49

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and Salaries	1,625,702	1,409,945
Social security costs	160,740	169,065
Other pensions costs	94,100	85,855
Personal accident and health insurance	30,890	32,115
	1,911,432	1,696,980

7 Directors' remuneration

	2017 £	2016 £
Remuneration for qualifying services	363,878	349,388
Company pension contributions to defined contribution schemes	21,045	18,279
	384,923	367,667

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

	2017 £	2016 £
Remuneration for qualifying services	156,070	155,601
Contribution to defined contribution pension	12,374	10,760

8 Investment income

	2017 £	2016 £
Income from listed investments	1,340,654	1,332,718
Bank and other interest	43,035	106,323
	1,383,689	1,439,041
Realised gains/(losses) on investments	3,886,907	2,165,756
Total investment income	5,270,596	3,604,797

Investment income includes the following:

	2017 £	2016 £
Interest on financial assets not measured at fair value through profit and loss	43,035	106,323

9 Interest payable and similar charges

	2017	2016
	£	£
On overdue tax	1,854	-
	1,854	-

10 Taxation

	2017	2016
	£	£
Current tax		
UK corporation tax on profits for current period	588,044	1,306,143
Adjustments in respect of prior period	-	-
Total current tax	588,044	1,306,143
Deferred tax	-	-
Total Tax	588,044	1,306,143

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

	2017	2016
	£	£
Profit before taxation on continued operations	4,321,397	8,022,134
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax of 19.25% (2016 - 20%)	831,869	1,604,427
Effects of:		
Non deductible expenses	94	(119)
Depreciation add back	20,963	18,886
Capital allowances	(6,200)	(39,077)
Dividends and distributions received	(258,561)	(260,974)
Other tax adjustments	(121)	(17,000)
	(243,825)	(298,284)
Total tax	588,044	1,306,143

11 Profit for the financial year

	2017	2016
	£	£
Parent company's profit for the financial year	3,643,852	5,505,755

12 Intangible fixed assets

Group & Company	Development Cost £
Cost	
At 1 January 2017	156,480
Additions - internally developed	-
At 31 December 2017	156,480
Amortisation and impairment	
At 1 January 2017	101,720
Amortisation charged for the year	36,910
At 31 December 2017	138,630
Carrying amount	
At 31 December 2017	17,850
At 31 December 2016	54,760

13 Tangible fixed assets

Group

	Freehold land and buildings £	Tenants additions £	Computer equipment £	Office furniture and equipment £	Motor vehicles £	Total £
Cost						
At 1 January 2017	755,000	48,980	212,351	40,901	36,467	1,093,699
Additions	-	-	17,182	8,294	-	25,476
Disposals	-	-	-	-	-	-
Market Value Adjustment	-	-	-	-	-	-
At 31 December 2017	755,000	48,980	229,533	49,195	36,467	1,119,175
Depreciation						
At 1 January 2017	-	22,240	81,743	21,396	7,597	132,976
On disposal	-	-	-	-	-	-
Charge for the year	-	4,898	48,890	9,085	9,117	71,990
At 31 December 2017	-	27,138	130,633	30,481	16,714	204,966
Carrying amount						
At 31 December 2017	755,000	21,842	98,900	18,714	19,753	914,209
At 31 December 2016	755,000	26,740	130,608	19,505	28,870	960,723

The fair value of the land and buildings 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:

	2017 £	2016 £
Cost	1,750,597	1,750,597
Accumulated depreciation	(1,120,382)	(1,085,370)
Carrying amount	630,215	665,227

13 Tangible fixed assets (continued)

Company

	Tenants additions	Computer equipment	Office furniture and equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2017	48,980	212,351	40,901	36,467	338,699
Additions	-	17,182	8,294	-	25,476
Disposals	-	-	-	-	-
Market Value Adjustment	-	-	-	-	-
At 31 December 2017	48,980	229,533	49,195	36,467	364,175
Depreciation					
At 1 January 2017	22,240	81,743	21,396	7,597	132,976
On disposal	-	-	-	-	-
Charge for the year	4,898	48,890	9,085	9,117	71,990
At 31 December 2017	27,138	130,633	30,481	16,714	204,966
Carrying amount					
At 31 December 2017	21,842	98,900	18,714	19,753	159,209
At 31 December 2016	26,740	130,608	19,505	28,870	205,723

14 Investments

Group	Current assets 2017	Current assets 2016	Fixed assets 2017	Fixed assets 2016
	£	£	£	£
Listed on a recognised investment exchange	53,688,656	51,594,438	-	-
Unlisted investments	-	-	2,519	2,519
	53,688,656	51,594,438	2,519	2,519

Company	Current assets 2017	Current assets 2016 restated	Fixed assets 2017	Fixed assets 2016
	£	£	£	£
Investments in subsidiaries	-	-	10,100	10,100
Listed on a recognised investment exchange	53,688,656	51,594,438	-	-
Unlisted investments	-	-	2,519	2,519
	53,688,656	51,594,438	12,619	12,619

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

Movement in fixed asset investments

Group	Shares	Total
	£	£
Cost or valuation		
At 1 January 2017	2,519	2,519
Additions	-	-
Valuation changes	-	-
Disposals	-	-
	2,519	2,519
Carrying amount		
At 31 December 2017	2,519	2,519
At 31 December 2016	2,519	2,519

14 Investments (continued)

Company	Shares £	Total £
Cost or valuation		
At 1 January 2017	12,619	12,619
Additions	-	-
Valuation changes	-	-
Disposals	-	-
	12,619	12,619
Carrying amount		
At 31 December 2017	12,619	12,619
At 31 December 2016	12,619	12,619

Group and company	2017 £	2016 £
Listed on a recognised investment exchange:		
Shares or other variable yield securities and units in unit trust	36,163,717	34,010,803

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

15 Financial instruments

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Financial assets held at fair value				
Holdings in collective investments	53,688,656	51,594,438	53,688,656	51,594,438
Cash held within investment funds	2,027,151	294,098	2,027,151	294,098
Total investment portfolio held at FV	55,715,807	51,888,536	55,715,807	51,888,536
Financial assets held at amortised cost				
Cash held outside the investment portfolio	10,692,403	11,332,424	9,768,662	10,536,103
Debtors arising out of direct insurance operations	603,134	698,274	567,161	657,551
Unlisted investments	2,519	2,519	12,619	12,619
Total financial instrument held at amortised cost	11,298,056	12,033,217	10,348,442	11,206,273
Total financial assets	67,013,863	63,921,753	66,064,249	63,094,809

15 Financial instruments (continued)

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 arm's length pricing for the asset.

All financial debt 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 £13,322,688 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 (primarily equity and currency risks) in respect of its financial assets carried at fair value. These assets were held at £53,691,175 (2016: £51,596,957) 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

Counterparty Liquidity Risk
Debt instruments held with credit institutions, including term cash deposits are managed internally. Balances 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 cash deposits of £13,322,688 (2016: £12,324,795) are held with a number of counterparties and different terms. The balance identified as less than 1 month includes cash immediately available on call of £4,126,388. The company is therefore exposed to risk in relation to the counterparties availability of funds to meet the terms of the deposits as they fall due. This risk is managed through the careful selection of counterparties and the use of credit rating agency view of potential partners and the operation of the counterparty risk policy within the business, limiting the exposure to any specific party and the overall risk at each level of credit rating.

Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group is exposed to liquidity risk in meeting operating costs as represented by the other creditor and accruals figures on the statement of financial position totalling £1,394,988 (2016: £1,176,856), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £1,343,779 (2016: £1,337,498). Both of these exposures are due within 12 months of the statement of financial position date, and in particular the large majority of claims represented by the technical provisions are generally settled within 3 months.

The Group seeks to mitigate liquidity risk by holding cash reserves which at any one time enable financial liabilities to be met for at least a month.

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 £603,134 (2016: £698,274).

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 polices.

16 Other Debtors

Due within one year

	Group 2017	Group 2016	Company 2017	Company 2016 restated
	£	£	£	£
Intercompany debtors	-	-	895,339	755,000
Other debtors	1,451	20,408	-	18,914
	1,451	20,408	895,339	773,914

17 Technical provisions

	Unearned Premium	Provision for outstanding claims
Group	£	£
As at 1 January 2017	575,108	702,120
Movement in provision for unearned premium	8,170	-
Movement in provision for outstanding claims	-	58,381
As at 31 December 2017	**583,278**	**760,501**
Company	£	£
As at 1 January 2017	568,590	702,120
Movement in provision for unearned premium	8,407	-
Movement in provision for outstanding claims	-	58,381
As at 31 December 2017	**576,997**	**760,501**

Uncertainties and estimation techniques
One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies and principally arises in respect of the technical provisions of the company. As a consequence of this uncertainty, the insurance company needs to apply appropriate estimation techniques to determine the provisions.

Process for determining assumptions
The process used to determine any assumptions is intended to result in conservative estimates of the most likely, or expected, outcome. The assumptions that are considered include the expected number and timing of claims, average claims value and servicing costs, over the period of risk exposure. A reasonable allowance is made for the uncertainty within the claims costs.

18 Creditors

Due within one year

	Group 2017	Group 2016	Company 2017	Company 2016
	£	£	£	£
Corporation tax	320,537	940,034	299,439	924,626
Taxation and social security	339,325	296,535	339,325	296,535
Trade creditors	241,587	322,214	67,829	34,480
	901,449	1,558,783	706,593	1,255,641

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

Group and company	2017	2016
	£	£
At beginning of year	102,266	102,266
Charge for the year	5,455	-
At end of year	107,721	102,266

20 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 £94,100 (2016 - £85,855).

The company operated a defined benefit scheme for a former employee. The assets of the scheme are held separately from those of the company in an independently administered fund. In a meeting of the Board of directors of the scheme on 20th September 2017 the Trustees approved a resolution winding up the plan. The risks associated with the plan have been transferred via an insurance policy to Aviva Life and Pensions UK Ltd. Historically this fund had a deficit of assets to which Sovereign Health Care from 1 April 2011 was 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

These obligations have been met for the year ended 31 December 2017 on a pro-rated basis from the above annual contributions. With effect from the date of the transfer of the risk all future liabilities have been discharged and as such the Company no longer has an obligation to settle.

21 Retained earnings

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
At beginning of year	61,656,424	54,940,433	61,154,090	55,648,335
Surplus on income and expenditure	3,733,353	6,715,991	3,643,852	5,505,755
At end of year	65,389,777	61,656,424	64,797,942	61,154,090

22 Operating lease commitments

Lessee

Operating lease payments represent rentals payable by the group for motor vehicles and office equipment. 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:

	2017	2016
	£	£
Within one year	44,525	26,471
Between two and five years	72,463	2,206
	116,988	28,677

23 Capital Commitments

The group had no contractual commitments as at 31 December 2017 (2016: None).

24 Subsequent Events

There are no events subsequent to the balance sheet date that require disclosure or adjustment to the financial statements.

25 Restatement

In these financial statements the group has changed the presentation of a number of items, restating the prior year comparatives accordingly.

Item 1: Accrued income – group
Statement of financial position

	Previously published	Group Adjustment	Restated
	£	£	£
Other debtors	147,506	(127,098)	20,408
Prepayments and accrued income	149,119	127,098	276,217

In the 2016 accounts, accrued income on investments of £127,098 was presented within Other debtors. This balance should have been presented within Prepayments and accrued income. The 2016 accounts have been restated in line with the current year presentation. There is no impact on Retained earnings, Total assets or cash flow from this presentation change.

Item 2: Accrued income and Investments – company

Statement of financial position	Previously published	Company Adjustment	Restated
	£	£	£
Prepayments and accrued income	140,799	127,098	267,897
Investments in subsidiaries	-	10,100	10,100
Investments	52,362,057	(765,100)	51,596,957
Other debtors	146,012	627,902	773,914

In the 2016 accounts, an intercompany debtor of £755,000 was presented within Investments. This balance should have been presented separately within Other debtors. The 2016 accounts have been restated in line with the current year presentation.

Further, Investments in subsidiaries of £10,100 is now presented separately on the face of the Statement of financial position. This was correctly presented in the notes in 2016, and is separated out in 2017 for additional clarity.

Finally, the change noted in Item 1 above regarding accrued income also applies to the company.

There is no impact on Retained earnings, Total assets or cash flow from these presentational changes.

Item 3: Cash flow statement

Consolidated statement of cash flow	Previously published	Group Adjustment	Restated
	£	£	£
Purchase of other investments	(4,778,484)	1,017,106	(3,761,378)
Proceeds on disposal of other investments	2,165,756	4,043,344	6,209,100
Unrealised gain/(loss) on investment	5,066,381	(5,066,381)	-

Note 1 – Cash generated from operations

	Previously published	Group Adjustment	Restated
	£	£	£
Cash generated from operations	(451,898)	5,929	(445,969)
Surplus for the year	1,649,611	5,066,381	6,715,992
Unrealised gains on investments	-	(5,066,381)	(5,066,381)
(Increase) / decrease in debtors	(361,489)	5,929	(355,560)

In the 2016 accounts, unrealised gains on investments were incorrectly presented in the Cash Flow Statement as net cash flows from financing activities. This line item has now been removed from the face of the Cash Flow Statement and the opening surplus value in Note 1 has also been restated to correctly include unrealised gains, with a corresponding change within Note 1 to remove those gains as a non-cash item.

The cash flows relating to the purchases and sales of investments have also been corrected to include all cash flows in relation to those transactions, and the increase in debtors has also been adjusted to correctly reflect the balances outstanding.

There is no impact on retained earnings or total assets or net cash flow from these presentational changes.