Sovereign Health Care

SOVEREIGN HEALTH CARE

(AN INCORPORATED COMPANY LIMITED BY GUARANTEE)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 (resigned 23 November 2018) J. C. Fortune S. R. Davies
Secretary	N. J. Stewart (appointed 3 December 2018)
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	BDO LLP 55 Baker Street London W1U 7EU
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	Torevell & Partners 5 Oxford Court Manchester M2 3WQ
Actuarial Function Holder	R. S. Piper (shared) N. J. Stewart (shared)

SOVEREIGN HEALTH CARE

CONTENTS

SOVEREIGN HEALTH CARE

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

2018 showed no let-up in the amount of work carried on at Sovereign Health Care with three large pieces of new regulation introduced, coupled with a significant amount of work to develop our customer portal and allow customers to claim on line as well as basic management of their cash plan policy.

GDPR had everybody's attention for the first half of 2018, and with the Insurance Distribution Directive and Senior Manager and Certification Regime following later in the year, the amount of regulatory work required stretched our limited resources leading to additional support being bought in.

Whilst our investment in developing our IT capability continues, progress at times has been frustratingly slow and we agreed with the Executive Team to bring in additional resource to help bring the various projects to satisfactory outcomes. We benefit from a comprehensive IT system and have significant ambition but that in itself can lead to complexities in developing simple to use facilities for our customers. It was refreshing to see the initial launch of the portal towards the back end of the year with a wider launch planned for 2019.

The uncertainty of the Brexit negotiations plus differing economic news around the globe contributed to a volatile investment market with the value of our reserves following suit. We ended the year around £4.3m lower however our capital position remains extremely strong, and the dividend income received allowed us to donate circa £675,000 to health and wellbeing initiatives that impact our chosen communities. The Board agreed in 2018 that subject to having sufficient funds available we would aim to donate each year between 5% and 10% of our annual turnover through our Community Fund to positively touch people's lives. As well as supporting our Community Fund the benefit of having significant dividend income also allows us to take longer term decisions to develop our business model without making a sizeable change to the overall value of our wealth.

We have started to extend our reach into the wider West Yorkshire area given we are now the only local provider of health cash plans and we launched our new Good All-Round product with the staff at Leeds Teaching Hospitals in June 2018. We have a strong track record of supporting local hospitals through both nurses training and hospital grants and to celebrate the 70th birthday of the NHS we gave the seven hospital trusts we support a total grant of £10,000 each.

It is likely that the NHS will see significant change over the coming years, and we aim to make our cash plan relevant and compliment health and health care services, regardless of whether they are accessed through the NHS or on a private basis.

Our regulator continues to take a more active interest with smaller insurers like us and we met with the PRA during December to discuss a range of issues. We believe our corporate governance to be in a very good place but will further develop this in 2019, especially that we are now deemed as a Public Interest Enterprise (PIE) under EU law. This has reduced the choice with regards external audit partners, however in 2018 we appointed BDO as our External Auditors following several years with KPMG.

Our aim is to remain an independent provider of health cash plans for both the corporate and individual markets, but we recognise with ever changing regulation, increased costs and other external threats, there may be times where we need to consider strategic partnerships to best serve our customers. Our Sovereign brand and ethos towards our customers and communities will always be at the forefront of any partnerships we strike up, and the concept of making fair and consistent decisions in claims handling based on principles that support our terms and conditions will remain central to our DNA.

2018 was a very successful year for the business and I extend my thanks to my Board colleagues, Executive and Senior Management Team and all our staff for making this possible. Here's to 2019!

C. M. Hudson - Chairman
Director
10 April 2019

SOVEREIGN HEALTH CARE

CHIEF EXECUTIVE'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

I was really pleased with our business outcomes during 2018, and while the overall performance was dampened by the impact of adverse stock market movements, Sovereign Health Care remains in great shape to continue to deliver value for money cash plan insurance to its customers and equally important, make a positive difference to the local community.

Our field team once again performed admirably in attracting new customers too and we saw a growth, albeit rather small on our overall customer numbers. We have deliberately chosen to market our schemes through our own field team as we believe this represents the best value for money for both corporates and individuals.

As mentioned in previous reports, we continue to invest heavily in our IT systems which presented specific challenges during the year. This delayed the launch of our customer portal, which will allow the submission of claims via the internet. A soft launch of the portal took place during the year while we worked on some of the intricacies of the software code leading to a more formal launch just prior to year-end. The portal and the ability to claim via the internet will ultimately deliver cost effective processing and generate financial savings which in the long term will offset the cost of development.

There were the usual regulatory challenges for a business of our size during the year, with the General Data Protection Regulation (EU) 2016/679 or more commonly known as GDPR, coming into force during May 2018. Our teams worked in great collaboration to ensure we were compliant with the new rules prior to launch date. In October the Insurance Distribution Directive came into force, shortly afterwards followed by the Financial Conduct Authority, Senior Manager and Certification Regime in December.

Sovereign Health Care is fortunate to enjoy great wealth and exceed our capital requirements comfortably under the Solvency II directive, demonstrated by the 2018 SCR coverage ratio of 308% (2017: 269%). We agreed as a Board during the year to review how best we can use our wealth to offer customers other services that support our aims of helping improve health and well-being with our customers and communities. This is likely to take several forms during 2019 and will be rolled out over the year.

Additionally, and very importantly we also agreed to review the way we make donations to our local communities, and agreed to commit, subject to sufficient funds being available, a figure between 5% and 10% of our annual turnover as a community fund donation. Clearly how much we donate each year depends on our priorities and the requests made to us, but we expect to donate at least £600,000 each year.

Our overall wealth during the year fell by around £4.3m and as stated earlier this was a direct result of the volatility of financial markets, however it is important to note that due to our comfortable capital position, we still hold the underlying assets and expect these to recover in 2019.

We had some personnel changes at a senior level during the year and I was delighted to welcome Nerissa Stewart to the Sovereign team as Finance Director (Designate) and Company Secretary. Nerissa brings a wealth of financial services experience to the business.

I cannot complete my report for the year without mentioning Brexit, that was due to happen at the end of March 2019. Sovereign has little exposure to Europe, a very small number of ex-pats have our health cash plan, however investment markets may be impacted by Brexit, plus several corporate customers may have different exposures and we are mindful the changes caused by Brexit could impact both demand for our services and the affordability to pay for them.

Sovereign Health Care is a great place to work, particularly with the positive difference we make to people's lives in our chosen communities. We can do this due to the dedication of our staff and as usual I offer sincere thanks to all of my colleagues.

R. S. Piper – Chief Executive
Director
10 April 2019

SOVEREIGN HEALTH CARE

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report and financial statements for the year ended 31 December 2018.

Review of the business

	2018	2017
	£	£
Premium Income	11,496,293	11,344,404
Underwriting Fees net of commission	(451,522)	(510,405)
Claims	(7,256,744)	(7,282,683)
Operating Expenses	(4,149,744)	(4,234,109)
Net Result	**(361,717)**	**(682,793)**
Investment (loss)/gain	(3,810,746)	5,490,023
Charitable Donations	(674,907)	(485,833)
Taxation	566,475	(588,044)
Retained Result for the year	**(4,280,895)**	**3,733,353**
Retained Reserves at 31 December	**61,108,882**	**65,389,777**

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 (KPI)

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

	2018	2017
Earned Premium Growth	£214,496	£158,551
Underwriting results (technical income less claims)	£3,788,027	£3,551,316
Operational expenses relative to Earned Premium	38%	39%
Value of Reserves	£61,108,882	£65,389,777

Risk dashboard

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 2018 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. Earned premium growth was achieved and within agreed budget, however due to the unrealised loss on investments as a direct result of the unstable stock markets, our reserves have decreased but the Company remains strongly capitalised. Key performance indicators are reviewed on a regular basis. The ongoing regulatory reporting requirements were successfully provided to the appropriate authorities.

Business environment

It was a difficult year for investors, with falls in all major stock markets with hedge funds and property indices also falling. The FTSE 100 index dropped over 1,000 points although with dividends remaining strong this netted to an 8.7% loss on the year. Many other global equity indices fared worse. Due to Brexit, the UK still faces political and economic uncertainty however there is potential for UK stocks to perform well in the future on the basis that they have been significantly undervalued and with Sterling likely to be affected, retaining Dollar and other foreign currency exposures within the investment portfolio should be positive in respect of the performance.

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 between 5% and 10% of annual turnover 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 products.

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

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

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, and during the year, the board agreed, subject to having sufficient capital funds available, the company will purposely give between 5% and 10% of annual turnover each year in charitable donations to communities or charitable initiatives with a health and wellbeing focus.

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 process. 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 2019 includes the following;

- 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 six 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 a female executive director (designate) 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 six male and two 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 £40.1m (2017: £41.1m) representing a solvency coverage ratio of 308% (2017: 269%). Capital requirements have decreased by £5m as a direct result of the decline in value of the investment portfolio.

	2018	2017
	£	£
Own Funds – Group	59,305,732	65,389,777
Solvency Capital Requirement	(19,232,827)	(24,246,182)
Solvency II capital surplus	40,072,905	41,143,595
Solvency Cover Ratio	308%	269%

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 2018, average attendance at all board meetings and sub groups was 89%.

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 statement of income and retained earnings for the year are set out on pages 18 to 19.

It is proposed that the retained loss of £4,280,895, representing the deficit on activities after tax is transferred to the group's reserves, giving a retained reserve of £61,108,882. As detailed in the review of the business and key performance indicators section, although the Group suffered a deficit this year as a result of the adverse stock markets, the underlying trading result was pleasing, a net loss of £361,717 (2017: net loss of £682,793) which including exceptional expenses in relation to IT developments of £377,126.

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. The property was revalued on 15 March 2019 by Eddisons Taylors.

Compliance with the UK Corporate Governance Code

The UK Corporate Governance sets out standards of good practice for listed companies. The Group does not comply fully due to its non-listed status, but 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
10 April 2019

The directors present their report and financial statements for the year ended 31 December 2018.

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 2018:

C. M. Hudson - Chairman
Dr. R. E. Dugdale - Senior Independent Director
M. S. Bower
S. M. Cummings
R. S. Piper
J. S. Sellars (resigned 23 November 2018)
S. R. Davies
J. C. Fortune

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 £674,907 (2017: £485,833).

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 statement of income and retained earnings 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

In accordance with Section 485 of the Companies Act 2006, the board appointed BDO LLP as registered Group auditors from the year ending 31 December 2018 to 31 December 2028.

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
10 April 2019

Opinion

We have audited the financial statements of Sovereign Health Care (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which the comprise consolidated statement of income and retained earnings, the consolidated and the parent company statements of change in equity, the consolidated and the parent company statement of financial position, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- the group and the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group and the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

Key audit matter	How we addressed the key audit matter in the audit
Insurance provisions (claims incurred but not reported ("IBNR") - £765,831 (2017: £760,501)	
Refer to the accounting policy in note 2.4 and 3 further information given in note and 17. Insurance provisions includes liabilities for claims incurred but not reported (IBNR) as at 31 December 2018. The process of recognising such claims is inherently complex and involves judgements to be made by management. Management's estimation technique is to make projections for claims provisions based on historical claims experience and hence there is a risk of estimate uncertainties over the use of historic data and the degree to which this will accurately reflect actual claims incurred as at the statement of financial position date.	We obtained detailed understanding of the methodology adopted by management and the key assumptions underpinning the calculation. We performed a retrospective review of the prior year estimate to consider the appropriateness of management's estimate in the prior year. The results of which were used to consider the suitability of the provisioning process for the current year. We tested the arithmetical accuracy of IBNR. We have also checked the inputs into the model including, agreeing the amount of historic claims payments We tested the validity of the historical data used by management by performing reconciliation of data used in Management's estimation of claims to raw claims data to check the accuracy of the details recorded. We compared the claims provision to available post year end claims payments. We used the results of this to consider the accuracy of the estimates made by management. We used our testing results and knowledge of the Group and the industry to challenge management's key assumptions, such as estimated claims values for the current year.

Key audit matter	How we addressed the key audit matter in the audit
Valuation of freehold land and buildings - £755,000 (2017: £755,000)	
Refer to the accounting policy in note 2.7 and further information given in note 13. The financial statements include freehold land and buildings held at fair value, which represents the estimated market value of this asset. The fair value or property necessarily includes judgements and estimates to be made. As such there is a risk of material misstatement in the valuation of the property Management has sought advice from an external valuer to assist them in their determination of the fair value of the Group and the parent company property.	We evaluated the competence, capability and objectivity of management's experts and reviewed the most recent valuation reports to ensure that the valuations were based on fair value. We specifically involved internal real estate expertise to assess the appropriateness of property valuations in light of rental yields and other relevant sources of information

Our application of materiality

Materiality is defined as the size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement. Materiality is an important judgement we make as part of establishing our overall audit strategy and is used throughout the audit process, including in the evaluation of our audit work and when forming our audit opinion. Based on our professional judgement, materiality was determined as follows:

Overall financial statements materiality	Group (consolidated) materiality £1,237,000 Parent company materiality £1,209,000
Basis of materiality	Group and Parent company materiality is based on 2% of Net assets. In establishing an appropriate benchmark to use, we considered various financial measures including those used by the management in their internal reporting, other relevant measures such as regulatory capital surplus, and industry practice. Net assets was considered the most appropriate metric given the nature of the business. Taking account of the size of profit and loss account, a specific materiality of £149,000 was set for audit of the profit and loss account, based on 1.3% of gross written premiums for the year ended 31 December 2018.
Performance materiality	Group (consolidated) - £804,000 Parent company - £786,000 Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality represents 65% of the Group materiality and the parent company materiality. This has been assessed on criteria such as complexity and the level of controls operated in the company and the fact that this is our first year as auditors of the Group.
Threshold for reporting misstatements to the Audit Committee	Group (consolidated) £37,000 Parent company £36,000 Although misstatements below this threshold are also reported where the nature of the misstatement warrants reporting, such as where items are clearly wrong or they are indicative of fraud.
Specific Materiality	To ensure that adequate audit consideration is given to items that impact the income statement alone (such as premiums, claims paid and operating expenses we applied a specific materiality when testing these items. Specific materiality for the Group and the parent company was £149,000 (based on 1.3% of gross written premiums)

An overview of the scope of our audit

The Group principally providing health cash plans in the UK. The scope of the audit was the entire Group. Our approach to the audit is risk based, with our audit work being tailored to ensure that sufficient assurance was gained for us to be able to give an opinion on the financial statements as a whole. Specific audit procedures were carried out on all risk areas identified, including the key audit matters detailed above, and on all material balances and classes of transactions. The audit team performed all aspects of the audit. There is only one significant component which was subject to full scope audit. For other components we have performed specific procedures.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Group and the parent company. We consider the primary fraud risks to be around the valuation of insurance provisions and valuation of freehold land and building.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls and the risk of fraud in revenue recognition, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

We identified areas of laws and regulations that could reasonably be expected to have a material impact on the financial statements from our sector experience and through discussion with the directors and other management, as required by the auditing standards.

We remained alert to any indications of non-compliance throughout our audit. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement [set out on page 11 and 12], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors 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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 28 November 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 December 2018.

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

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

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Perry (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
United Kingdom
10 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

SOVEREIGN HEALTH CARE

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	£	2018 £	£	2017 £
Technical Account - General Business					
Gross premiums written	4	10,943,887		10,772,125	
Change in gross provisions for unearned premiums	17	34,327		(8,407)	
			10,978,214		10,763,718
Other technical income					
Contributions received:					
Personal Accident	4	220,067		245,127	
Health Cheques Direct	4	183,003		208,776	
Positive Care	4	115,009		126,783	
Less: Underwriting premiums		(451,921)		(510,405)	
Commission received		399		-	
			66,557		70,281
Allocated investment returned transferred from non technical account	8		1,488,077		1,383,689
			12,532,848		12,217,688
Claims incurred					
Claims paid gross		(7,251,414)		(7,224,302)	
Change in the gross provision for claims	17	(5,330)		(58,381)	
			(7,256,744)		(7,282,683)
Net operating expenses	5		(4,148,025)		(4,226,800)
Change in other provisions	19		(1,719)		(5,455)
			(11,406,488)		(11,514,938)
Balance on the technical account for general business			1,126,360		702,750

The notes on pages 23 to 42 form an integral part of the financial statements.

	Notes	2018 £	2017 £
Non-technical Account			
Balance on the technical account for general business		1,126,360	702,750
Investment Income	8	1,281,959	5,270,596
Investment return allocated to technical account		(1,488,077)	(1,383,689)
Interest payable	9	-	(1,854)
Unrealised (losses)/gains on investments		(5,092,705)	219,427
Charitable donation		(674,907)	(485,833)
(Deficit)/surplus on ordinary activities before taxation		(4,847,370)	4,321,397
Tax on ordinary activities	10	566,475	(588,044)
(Deficit)/surplus on ordinary activities after taxation		(4,280,895)	3,733,353
Retained earnings at 1 January		65,389,777	61,656,424
Retained earnings at 31 December		61,108,882	65,389,777

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

As permitted by section 408 Companies Act 2006, the holding company's statement of income and retained earnings has not been included in these financial statements.

The notes on pages 23 to 42 form an integral part of the financial statements.

Statement of Comprehensive Income

A separate statement of comprehensive income has not been prepared as there is no other comprehensive income.

SOVEREIGN HEALTH CARE

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

Group	Notes	Profit and Loss reserves £
At 1 January 2017		61,656,424
Year ended 31 December 2017:		
Surplus for the year		3,733,353
Balance at 31 December 2017		65,389,777
Year ended 31 December 2018:		
Deficit for the year		(4,280,895)
Balance at 31 December 2018		61,108,882

Company	
At 1 January 2017	61,154,090
Year ended 31 December 2017:	
Surplus for the year	3,643,852
Balance at 31 December 2017	64,797,942
Year ended 31 December 2018:	
Deficit for the year	(4,343,518)
Balance at 31 December 2018	60,454,424

SOVEREIGN HEALTH CARE

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Assets					
Investments					
Intangible assets	12	5,250	17,850	5,250	17,850
Investment in subsidiaries	14	-	-	10,100	10,100
Investments	14	48,383,614	53,691,175	48,383,614	53,691,175
		48,388,864	53,709,025	48,398,964	53,719,125
Debtors					
Debtors arising out of direct insurance operations		544,648	603,134	515,013	567,161
Other Debtors	16	571,328	1,451	757,953	895,339
		1,115,976	604,585	1,272,966	1,462,500
Other Assets					
Tangible assets	13	850,067	914,209	850,067	159,209
Cash at bank and in hand		12,792,730	12,719,554	11,904,852	11,795,813
		13,642,797	13,633,763	12,754,919	11,955,022
Prepayments and accrued income		308,721	288,892	304,122	283,370
Total Assets		**63,456,358**	**68,236,265**	**62,730,971**	**67,420,017**
Liabilities					
Reserves					
Reserves	21	61,108,882	65,389,777	60,454,424	64,797,942
		61,108,882	65,389,777	60,454,424	64,797,942
Technical provisions					
Provision for unearned premiums	17	548,951	583,278	542,358	576,997
Provision for claims outstanding	17	765,831	760,501	765,831	760,501
		1,314,782	1,343,779	1,308,189	1,337,498
Provision for other risk and charges	19	109,440	107,721	109,440	107,721
Creditors					
Other creditors including taxation and social security	18	445,252	901,449	412,472	706,593
Accruals and Deferred Income		478,002	493,539	446,446	470,263
Total liabilities		**63,456,358**	**68,236,265**	**62,730,971**	**67,420,017**

The company's loss for the financial year is £4,343,518 (2017: £3,643,852 Profit)

The notes on pages 23 to 42 form an integral part of the financial statements.
The financial statements were approved by the board of directors and authorised for issue on 10 April 2019.
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 2018

	Notes		2018		2017
		£	£	£	£
Cash flows from operating activities					
Cash used in operations	1		(1,063,479)		(1,034,251)
Interest paid			-		(1,854)
Income taxes paid			(320,345)		(1,207,541)
Net cash inflow/(outflow) from operating activities			(1,383,824)		(2,243,646)
Investing activities					
Dividend and Interest received		1,464,625		1,340,626	
Purchase of fixed assets		-		(25,476)	
Purchase if other investments		(2,289,374)		(4,530,619)	
Proceeds on disposal of other investments		2,281,749		6,552,148	
Net cash used in investing activities			1,457,000		3,336,679
Net decrease in cash and cash equivalents			73,176		1,093,033
Cash and cash equivalents at beginning of year			12,719,554		11,626,521
Cash and cash equivalents at end of year			12,792,730		12,719,554
Relating to:					
Bank balances and short term deposits			12,792,730		12,719,554
Bank overdrafts			-		-

1 Cash used in operations

	2018 £	2017 £
(Deficit)/surplus for the year	(4,280,895)	3,733,353
Adjustments for:		
Income tax expense recognised in statement of income and retained earnings	(566,475)	588,044
Investment income	(1,488,077)	(1,383,689)
Finance costs recognised in statement of income and retained earnings	-	1,854
Amortisation and impairment of intangible assets	12,600	36,910
Depreciation and impairment of tangible fixed assets	64,142	71,990
Loss/(gain) on sale of investments	222,582	(3,886,907)
Unrealised loss/(gain) on Investments	5,092,705	(219,427)
Movements in working capital:		
(Increase)/decrease in debtors	58,415	94,533
Increase/(decrease) in creditors	(178,476)	(70,912)
Cash used in operations	(1,063,479)	(1,034,251)

2.1 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 Basis of preparation
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 preparation of financial statements in conformity with FRS102 and FRS 103 requires use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements, are disclosed in Note 3.

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 statement of income and retained earnings and statement of financial position include the financial statements of the company and its subsidiary undertakings made up to 31 December 2018. The results of subsidiaries sold or acquired are included in the consolidated statement of income and retained earnings 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 statement of income and retained earnings has not been included in these financial statements.

FRS 102 allows a qualifying entity certain disclosure exemption, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Group's directors.

The Company has taken advantage of the following exemptions:

a) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;

b) from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

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
Gross earned premiums represent the proportion of health contributions received in the year relating to cover provided for the year, where a proportion of the premiums written in the current year relate to cover provided in the following year is carried forward as a provision for unearned premiums. Gross premium is adjusted for the movements in the unearned premium provision. 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 premiums written excludes Insurance premium Tax. No re-insurance arrangements are in place.

2.4 Claims
Claims incurred are recognised in the accounting period in which the claim was paid, together with the movement in the provisions for claims incurred but not reported. Provision is made for the estimated cost of claims incurred up to the statement of financial position date and outstanding at that date. The provision is estimated 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 Accounting policies (continued)

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

2.7 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:

Building 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 as a profit or loss through the statement of income and retained earnings.

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 retained account when realised.

2.8 Financial Investments

Investments listed on a recognised stock exchange are held at current market value, bid price, with any changes being recognised through the statement of income and retained earnings.

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 Accounting policies (continued)

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 the statement of income and retained earnings, 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 the statement of income and retained earnings, 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

2.11 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 the statement of income and retained earnings 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.

2 Accounting policies (continued)

2.11 Financial assets (continued)

Impairment of financial assets

Financial assets, other than those held at fair value through the income and retained earnings account, 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 statement of income and retained earnings 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 the statement of income and retained earnings 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 statement of income and retained earnings 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 statement of income and retained earnings, 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 the statement of income and retained earnings 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 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 the services are provided.

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. Contributions to the defined benefit pension scheme were indefinitely suspended from 1 April 2017.

2 Accounting policies (continued)

2.17 Leases

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Lease of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Leases that do not transfer all the risk and rewards of ownership are classifies as operating leases. Payments under operating leases are charge to the statement of income and retained earnings on a straight-line basis over the period of the lease term.

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 statement of financial position as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the statement of income and retained earnings to produce a constant periodic rate of interest, on the remaining balance of the liability.

The Group has no leases classified as finance leases through the reporting period.

3 Accounting estimates and judgements

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

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

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

Critical accounting judgements in applying the Company's accounting policies

Claims provision

Provision is made for the cost of claims incurred up to the statement of financial position date and outstanding at that date. Calculation of the provision requires judgement and is based upon prior claims experience. The actual amounts paid may significantly vary from the projections based on historical data. 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.

	2018	2017
	£	£
Gross contributory income	12,748,769	12,527,726
less: Personal Accident Contributions	(220,067)	(245,127)
less: Health Cheques Direct Contributions	(183,003)	(208,776)
less: Positive Care Contributions	(115,009)	(126,783)
less: Insurance premium tax	(1,286,803)	(1,174,915)
	10,943,887	10,772,125

The Group has a single class of income and as such gross written and earned premiums, gross claims and operating expenses are all identifiable within the income and income retained earnings account on pages 18 and 19. Personal Accident, Health Cheques Direct and Positive Care have been excluded above as these products are not underwritten by Sovereign Health Care.

5 Net operating expenses

	2018 £	2017 £
Acquisition costs	1,253,894	1,208,010
Administration	2,894,131	3,018,790
	4,148,025	4,226,800

Operating profit is stated after charging:		
Amortisation of intangible assets	12,600	36,910
Depreciation of tangible assets	64,142	71,990
Operating lease rentals		
Plant and machinery	62,105	48,324

Auditors' remuneration (inclusive of VAT)

	2018 £	2017 £
Fees payable to the group's auditor for the audit of the company's annual accounts	58,168	52,800
Fees payable to the group's auditor for the audit of the subsidiary companies annual accounts	12,960	12,000
Solvency II audit fees	-	40,200
	71,128	105,000

In November 2018 the Prudential Regulatory Authority (PRA) published Policy Statement PS25/18 which amended the External Audit part of the PRA Rulebook (Appendix 1) and updated the Supervisory Statement 11/16 'Solvency II: External Audit'.

This update removed the requirement for an external audit of the Solvency and Financial Condition Reports (SFCR) for certain small Solvency II firms. Sovereign Health Care meet the defined criteria of a small insurer and therefore will no longer require an external audit of its 2018 SFCR.

Sovereign Health Care has applied the metric to determine a small insurer, and the board are of the opinion the SFCR will not require an audit and have elected to take advantage of the exemption.

6 Employees

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

	2018 Number	2017 Number
Sales and Marketing	18	19
Customer services	7	7
Claims	10	10
Business Services	4	4
Administration and finance	8	8
	47	48

Their aggregate remuneration comprised:

	2018 £	2017 £
Wages and Salaries	1,620,639	1,625,702
Social security costs	164,141	160,740
Other pensions costs	97,342	94,100
Personal accident and health insurance	34,212	30,890
	1,916,334	1,911,432

7 Directors' remuneration

	2018 £	2017 £
Remuneration for qualifying services	410,288	363,878
Company pension contributions to defined contribution schemes	22,584	21,045
	432,872	384,923

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

	2018 £	2017 £
Remuneration for qualifying services	169,094	156,070
Contribution to defined contribution pension	13,697	12,374

8 Investment income

	2018 £	2017 £
Income from listed investments	1,407,305	1,340,653
Bank and other interest	80,772	43,035
	1,488,077	1,383,688
Realised gains/(losses) on investments	(206,118)	3,886,907
Total investment income	1,281,959	5,270,595

9 Interest payable and similar charges

	2018	2017
	£	£
On overdue tax	-	1,854
	-	1,854

10 Taxation

	2018	2017
	£	£
Current tax		
UK corporation tax on profits for current period	(402,364)	588,044
Adjustments in respect of prior period	(164,111)	-
Total current tax	(566,475)	588,044
Deferred tax	-	-
Total Tax	(566,475)	588,044

The (credit)/charge for the year can be reconciled to the (loss)/profit as per the statement of income and retained earnings as follows:

	2018	2017
	£	£
(Loss)/profit before taxation on continued operations	(4,847,370)	4,321,397
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of corporation tax of 19.00%(2017 - 19.25%)	(921,000)	831,869
Effects of:		
Non deductible expenses	3,763	94
Losses carried back	402,364	-
Depreciation add back	12,187	20,963
Capital allowances	(1,064)	(6,200)
Dividends and distributions received	(267,244)	(258,561)
Prior year adjustments	164,111	-
Group Relief	19,103	-
Other tax adjustments	21,305	(121)
Total current tax	354,525	(243,825)
Total tax	(566,475)	588,044

The company has losses of £4,047,312 (2017: £nil) available for carry forward against future trading profits. Deferred tax assets have not been recognised in respect of these losses due to the uncertainty on stock market performance.

11 Profit for the financial year

As permitted by section 408 Companies Act 2006, the holding company's statement of income and retained earnings has not been included in these financial statements. The (loss)/profit for the financial year is made up as follows:

	2018	2017
	£	£
Holding company's (loss)/profit for the financial year	(4,343,518)	3,643,852

12 Intangible fixed assets

Group & Company	Development Cost £
Cost	
At 1 January 2018	156,480
Additions	-
At 31 December 2018	156,480
Amortisation and impairment	
At 1 January 2018	138,630
Amortisation charged for the year	12,600
At 31 December 2018	151,230
Carrying amount	
At 31 December 2018	5,250
At 31 December 2017	17,850

13 Tangible fixed assets

Group

	Freehold land and buildings	Building additions	Computer equipment	Office furniture and equipment	Motor vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2018	755,000	48,980	229,533	49,195	36,467	1,119,175
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Market Value Adjustment	-	-	-	-	-	-
At 31 December 2018	755,000	48,980	229,533	49,195	36,467	1,119,175
Depreciation						
At 1 January 2018	-	27,138	130,633	30,481	16,714	204,966
On disposal	-	-	-	-	-	-
Charge for the year	-	4,898	41,545	8,582	9,117	64,142
At 31 December 2018	-	32,036	172,178	39,063	25,831	269,108
Carrying amount						
At 31 December 2018	755,000	16,944	57,355	10,132	10,636	850,067
At 31 December 2017	755,000	21,842	98,900	18,714	19,753	914,209

This fair value of the land and buildings has been arrived at on the basis of a valuation carried out on 15 March 2019 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 this to be fair value of the property.

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:

Group	**2018**	**2017**
	£	£
Cost	1,750,597	1,750,597
Accumulated Depreciation	(1,155,394)	(1,120,382)
Carrying amount	595,203	630,215

13 Tangible fixed assets (continued)

Company

	Freehold land and buildings	Building additions	Computer equipment	Office furniture and equipment	Motor vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2018	-	48,980	229,533	49,195	36,467	364,175
Transfer from subsidiary	755,000	-	-	-	-	755,000
Disposals	-	-	-	-	-	-
Market Value Adjustment	-	-	-	-	-	-
	755,000	48,980	229,533	49,195	36,467	1,119,175
Depreciation						
At 1 January 2018	-	27,138	130,633	30,481	16,714	204,966
On disposal	-	-	-	-	-	-
Charge for the year	-	4,898	41,545	8,582	9,117	64,142
At 31 December 2018	-	32,036	172,178	39,063	25,831	269,108
Carrying amount						
At 31 December 2018	755,000	16,944	57,355	10,132	10,636	850,067
At 31 December 2017	-	21,842	98,900	18,714	19,753	159,209

During 2018 the ownership of Royal Standard House, 26 Manningham Lane, Bradford, BD1 3DN, was transferred from Brentserve Ltd, a 100% owned subsidiary, to Sovereign Health Care at a cost of £755,000, which is the current fair value of the property.

14 Investments

Group	Current assets 2018 £	Current assets 2017 £	Non current assets 2018 £	Non current assets 2017 £
Listed on a recognised investment exchange	48,381,095	53,688,656	-	-
Unlisted investments	-	-	2,519	2,519
	48,381,095	53,688,656	2,519	2,519

Company	Current assets 2018 £	Current assets 2017 £	Non current assets 2018 £	Non current assets 2017 £
Investments in subsidiaries	-	-	10,100	10,100
Due from subsidiaries	-	-	-	-
Listed on a recognised investment exchange	48,381,095	53,688,656	-	-
Unlisted investments	-	-	2,519	2,519
	48,381,095	53,688,656	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 the statement of income and retained earnings.

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

14 Investments (continued)

Movement in non current asset investments

Group	**Shares**	**Total**
	£	**£**
Cost or valuation		
At 1 January 2018	2,519	2,519
Additions	-	-
Valuation changes	-	-
Disposals	-	-
	2,519	2,519
Carrying amount		
At 31 December 2018	2,519	2,519
At 31 December 2017	2,519	2,519

Company	**Shares**	**Total**
	£	**£**
Cost or valuation		
At 1 January 2018	12,619	12,619
Additions	-	-
Valuation changes	-	-
Disposals	-	-
	12,619	12,619
Carrying amount		
At 31 December 2018	12,619	12,619
At 31 December 2017	12,619	12,619

Group and company	**2018**	**2017**
	£	**£**
Listed on a recognised investment exchange:		
Share or other variable yield securities and units in unit trust	35,957,390	36,163,717

Holdings of more than 20%

Company	**Percentage of shares held**	**Nature of Business**
Sovereign Health and Insurance Services Limited	100	Insurance intermediary
Sovereign Assured Partners Limited	100	Insurance agent and broker

The above companies' registered offices are at Royal Standard House, 26 Manningham Lane, Bradford, BD1 3DN.

15 Financial Instruments

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Financial assets held at fair value				
Holdings in collective investment schemes	48,381,095	53,688,656	48,381,095	53,688,656
Cash held within investment funds	1,740,809	2,027,151	1,740,809	2,027,151
Total investment portfolio held at FV	50,121,904	55,715,807	50,121,904	55,715,807
Financial assets held at amortised cost				
Cash held at credit institutions and in hand	11,051,921	10,692,403	10,164,043	9,768,662
Debtors arising out of direct insurance operations	544,648	603,134	515,013	567,161
Unlisted investments	2,519	2,519	12,619	12,619
Total financial instrument held at amortised cost	11,599,088	11,298,056	10,691,675	10,348,442
Total financial assets	61,720,992	67,013,863	60,813,579	66,064,249

	2018	2017	2018	2017
	£	£	£	£
Financial liabilities held at amortised cost				
Technical Provisions	1,314,782	1,343,779	1,308,189	1,337,498
Creditors & Accruals	113,489	88,231	527,156	384,736
Total financial liabilities	1,428,271	1,432,010	1,835,345	1,722,234

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 statement of income and retained earnings.
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 £12,762,362 are all due within 12 months and the carrying value is deemed a reasonable approximation of fair value.

Unlisted investments consist of a small shareholding totalling £2,519. This is based on cost which is deemed an appropriate approximation of fair value as a Level 3 input.

15 Financial instruments (continued)

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 £48,381,095 (2017: £53,688,656) and are traded on regulated financial markets, both in the UK and abroad. Management of the investments is undertaken utilising the advice of third party wealth management professionals on a recommendation basis. Movements in the regulated markets can drive volatility within the valuation of these assets.

Liquidity Risk
Debt instruments held with credit institutions, 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 £12,762,362 (2017: £13,322,688) 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 £4,390,441. 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.

The maturity profile as at 31 December 2018 of the cash deposits are:

Less than or equal to 1 month	£7,333,532
Greater than 1 but less or equal to 6 months	£3,000,000
Greater than 6 months	£2,428,830
	£12,762,362

The Group also holds cash in hand of £30,368.

The Group is also exposed to liquidity risk in meeting operating costs as represented by the other creditor and accruals figures on the statement of financial position totalling £923,254 (2017: £1,394,988), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £1,314,782 (2017: £1,343,779). 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 £544,648 (2017: £603,134).

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.

Credit ratings for the counterparties mentioned in the counterparty liquidity risk section are outlined below:

Counterparty	Rating
Barclays Bank	A
Close Brothers	A
Aegon (CoFunds)	A
Handelsbanken	AA
Yorkshire Bank	BBB

The credit rating disclosed are consistent with the Solvency II reporting requirements in calculating the Solvency Capital Requirement.

16 Other Debtors

Due within one year	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Intercompany debtors	-	-	191,770	895,339
Corporation tax debtor	566,183	-	566,183	-
Other debtors	5,145	1,451	-	-
	571,328	1,451	757,953	895,339

17 Technical Provisions

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Unearned Premiums				
As at 1 January	583,278	575,108	576,997	568,590
Movement in provision	(34,327)	8,170	(34,639)	8,407
As at 31 December	548,951	583,278	542,358	576,997
Provision for outstanding claims				
As at 1 January	760,501	702,120	760,501	702,120
Movement in provision	5,330	58,381	5,330	58,381
As at 31 December	765,831	760,501	765,831	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 2018	Group 2017	Company 2018	Company 2017
	£	£	£	£
Corporation tax	-	320,537	-	299,439
Taxation and social security	331,763	339,325	331,763	339,325
Trade creditors	113,489	241,587	80,709	67,829
	445,252	901,449	412,472	706,593

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

Group and company	2018	2017
	£	£
At beginning of year	107,721	102,266
Transfer from Technical Account	1,719	5,455
	109,440	107,721

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 statement of income and retained earnings in respect of defined contribution schemes was £97,341 (2017 - £94,100).

Contributions to the defined benefit pension scheme were indefinitely suspended from 1 April 2017.

21 Retained earnings

	Group 2018	Group 2017	Company 2018	Company 2017
	£	£	£	£
At beginning of year	65,389,777	61,656,424	64,797,942	61,154,090
(Deficit)/surplus on income and expenditure	(4,280,895)	3,733,353	(4,343,518)	3,643,852
At end of year	**61,108,882**	**65,389,777**	**60,454,424**	**64,797,942**

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:

	2018	2017
	£	£
Within one year	40,116	44,525
Between two and five years	32,347	72,463
	72,463	**116,988**

23 Capital commitments

The group had no contractual commitments as at 31 December 2018 (2017: None).

24 Subsequent events

There are no events subsequent to the statement of financial position date that require disclosure or adjustment to the financial statements.