Sovereign Health Care

SOVEREIGN HEALTH CARE

(AN INCORPORATED COMPANY LIMITED BY GUARANTEE)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Company Registration No. 00085588 (England and Wales)

Established 1873

DIRECTORS AND ADVISERS

Directors	R. J. H Craven (Appointed 1 January 2022) S. R. Davies, Senior Independent Director Dr. A. D. G. Dawson J. C. Fortune, Chair K. Hinds R. S. Piper S. M. Sedgwick N. J. Stewart
Secretary	N. J. Stewart
Chief Executive	R. S. Piper
Life Members	M. Austin M. S. Bower D. Child G. A. Clarkson S. M. Cummings J. L. Hellawell C. M. Hudson D. J. Lewis
Company number	00085588
Registered office	The Waterfront 2nd Floor, West Wing Salts Mill Road Shipley BD17 7EZ
Registered Auditors	BDO LLP 55 Baker Street London W1U 7EU
Bankers	Svenska Handelsbanken AB 1st Floor Centre of Excellence Hope Park Bradford BD5 8HH
Solicitors	Gordons LLP 1 New Augustus Street Bradford BD1 5LL
Investment Advisors	Torevell & Partners 5 Oxford Court Manchester M2 3WQ
Actuarial Function Holder	K. M. Moore - Steve Dixon Associates LLP

SOVEREIGN HEALTH CARE

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2022, finally saw the world putting COVID behind us and trying to return to normal life although the definition of “normal” may well have changed compared to life prior to the pandemic. After two very different years with lockdowns and difficulty accessing everyday healthcare, our experience in 2022 suggested that our customers and the general population have put their own health much higher up the priority list than it had been previously.

Whilst we expected our claims costs to increase in 2022, the level of increase was more than we were expecting and were much closer to pre pandemic levels, despite the fact we had around 10% less customers compared to the same period. It is worth remembering the cyclical nature of our cash plan pricing has remained on hold whereas in previous years we would review claims and premium cycles and make the necessary adjustments to remain within our targeted business parameters, and the result of this had a huge impact on our overall results.

However, the benefit of holding healthy reserves, which in turn generates income from our non-technical account, £1.7m transferred to the technical account in 2022, allowed us to generate an overall surplus on our General Business Account of £1.46m, albeit £370,000 lower than 2021. Despite the claims pressure, alongside the high levels of inflation within the UK economy this allowed us to retain individual premium levels from 2018 rates. With the uncertainty in the economy and the cost of living crisis, making sure premiums remain affordable and financially supporting our customers to access everyday health care when they need it will continue in 2023.

Sovereign Health Care’s Community Programme and the positive impact it has on our chosen communities and partners, was able to gift a total of £482,035 and whilst slight lower than our targeted 5% of turnover, it meant once again we were able to positively touch people’s lives around health and wellbeing. Whilst we remain a commercial business, it is our “Not for Profit” ethos that drives us to ensure that operational and business challenges do not adversely impact our Community Programme goals.

This was further evidenced with our support to the Bradford City of Culture in 2025, where we became a major supporter and help give our district the opportunity to showcase diversity in Bradford.

The work on our Corporate Governance arrangements continued and our Board now comprises of completely independent Non-Executive Directors. In January 2022 we welcomed our newest NED, Jon Craven to the Sovereign Health Care Board. Moving forward it is important that the strong culture and focus on doing the right thing, which Sovereign is built upon remains, but at the same time we evolve to reflect the changing demands of our customers and community partners.

Investment markets in 2022 had a recurring theme of rise and fall, with the FTSE 100 closing on 31st December 2021 at 7,385 and a year later closing slightly up at 7,451, with falls in between as low as 6,858. With the turbulent market conditions, this equated to an unrealised loss on our investments of nearly £11m however this was offset by crystallising £8.4m in gains on some of our collective fund holdings to increase our cash holdings in the short term, to fund the purchase of a purpose-built office building, The Waterfront, in early 2023.

Sovereign Health Care was first established in a slightly different guise in 1873 so in 2023 we will celebrate our 150th anniversary and plan to showcase the positive difference we have made to people’s lives through our Community Programme and before that the Sovereign Health Care Charitable Trust. We will also commence the task to find a new Chief Executive as our long serving incumbent Russ Piper has expressed his wish to retire in early 2024. As with previous changes in our top role, it is important we find the correct replacement and have a comprehensive handover.

We remain committed to being custodians of the business with a responsibility to continually improve and enhance what we do. Finally, I would once again offer my thanks to my fellow directors, senior managers, and staff at Sovereign Health Care for their efforts in delivering another successful year.

J. C. Fortune - Chair
Director
12 April 2023

SOVEREIGN HEALTH CARE

CHIEF EXECUTIVE'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

Looking back over the whole of 2022, I am delighted with what we have achieved given the amount of change we encountered in a relatively short space of time. As the year began, it did feel like we were resetting ourselves after COVID and this was exemplified by our sales teams who delivered improved results month on month in Q1, and then retained a performance level that enabled us to deliver around a third more sales than we were targeting. As a result of this our technical income for the year remained in excess of £10m.

As the world began to return to normal, it was evident that our claims paid expectation was going to come under pressure, both on volume by a relatively small scale and value by a much larger scale and by year end we had almost paid out £6.9m. Whilst in the past we have seen claims exceed £7m, it was shared across more customers and our income base was higher.

Nonetheless the business remains in great financial shape and our overall approach to the business model and our investment portfolio allows us to follow the path we believe to be right for our customers, community partners and ourselves.

Being a relatively small team, delivering change on a consistent basis can be difficult, but two milestones on customer service initiatives were realised in 2022, the introduction of paperless welcome packs through our secure portal and the same with our corporate invoicing. The efficiencies and cost savings of both projects will come to fruition in 2023.

To support the health, wellbeing, and life balance of our people, we formally introduced a hybrid working model in the early part of 2022 which was well received by our teams. To support the way we wish to work in future years we came to the decision that the office layout at Royal Standard House, no longer worked and the cost of renovating the building would be too great, so we took the decision to move the short distance to Saltaire and lease a wing of the impressive building called The Waterfront, near the Salts Mill site.

I am genuinely thankful to our Board for backing this decision and agreeing that the fit out of the new space would be to a standard that would turn heads. Working with our trusted partner “The Ultimate Group”, we have created a modern, efficient, and impressive working space that will enable our staff to work collaboratively and flexibly for many years to come. Before the year concluded, we had agreed to purchase the entire office building in Shipley and become commercial landlords, as well as agree the sale of Royal Standard House. The completion of both the purchase of The Waterfront and the sale of Royal Standard House will come to a conclusion in early 2023. Once the dust has settled, we will have achieved a significant move for in reality very little cost.

An important part of our business model is being a responsible “corporate citizen” and once again through our Community Programme we gifted just shy of half a million pounds during the year, along with additional commitments to support the purchase of two key pieces of equipment for two of the NHS trusts we support. We continued to make donations to smaller health and wellbeing good causes and once again played “Father Christmas” for children and the siblings in hospital over the Christmas period.

Whilst 2023 will be my final full year at the helm of Sovereign, there remains much to do including a fundamental change to our cash plan range, being ready for the forthcoming Consumer Duty alongside the never ending development of our IT systems and all things digital, not forgetting our 150th anniversary.

A huge thank you to my colleagues and staff for their efforts in 2022.

R. S. Piper – Chief Executive
Director
12 April 2023

The Strategic report is prepared in accordance with The Companies Act 2006. The report outlines the activities of Sovereign Health Care (the “Company”) and its subsidiaries (the “Group”) in the year and reviews the principal risks facing the Group.

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 gift the equivalent of between 5% and 10% of annual turnover each year in charitable donations from investment returns, subject to sufficient capital funds available.
- 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 continuing to be 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 the equivalent of 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. The products are designed to refund costs of everyday healthcare within specific limits, to enable schemes to be sustainable within pricing cycles, usually every three years.

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.

Business Performance

Summary of consolidated statement of comprehensive income:

	2022	**2021**
	£	**£**
Premium income	9,982,568	10,209,685
Other technical income	81,293	87,260
Claims	(7,071,031)	(6,827,645)
Operating expenses	(3,292,454)	(2,927,128)
Net result	(299,624)	542,172
Investment (loss)/gain - net of income	(1,145,485)	8,346,044
Charitable donations	(482,035)	(447,972)
Other charges	(91,809)	-
Taxation	695,028	(1,239,684)
Retained result for the year	(1,323,925)	7,200,560
Retained reserves at 31 December	76,321,125	77,645,050

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 strategic reports and statement from the Chair and Chief Executive.

Business Performance (continued)

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.

Business performance overall was positive considering the continuing backdrop of economic uncertainty and the cost-of-living crisis. Following the pandemic, 2022 was a year of rebuilding our foundations and our sales volumes achieved 133% of target, with similar levels of sales to pre-pandemic years. We were extremely pleased to restart our onsite worksite visits, enabling our field sales team to interact with customers on a face to face basis. Whilst our member base shrunk by 1%, this is an improved position compared to prior year's shrinkage of 3%, and also bettered our financial plan. We continue to develop our customer journey, implementing paperless welcome packs and as a result our customers can access product literature via their online customer portal. This not only looks to reduce our expenses but improves our carbon footprint by reducing our use of paper and the associated carbon emissions linked to use of the postal services.

Claiming behaviour and claims payments returned to typical claiming levels, if not higher, having paid £6.9m (2021: £6.7m) to our customers. Catch up treatments, rescheduling of appointments and the efforts in trying to reduce the NHS backlog post pandemic were very apparent in the incident rates for both the dental and hospital in-patient benefits. The Board believes offering other benefits such as a 24-hour confidential telephone helpline, Employee Assistance Programme (EAP) and access to a 24-hour GP service are integral to our products as the focus on accessible healthcare and mental health services becomes increasingly more important amid the pressures on the NHS and the consequences of the pandemic.

At the end of the year, Sovereign Health Care relocated its headquarters to Shipley, still remaining in the Bradford District. The move to a new, purpose-designed office was to accommodate post-COVID changes in both flexible working patterns and health and wellbeing requirements. The new head office supports both our business needs and those of our employees, including technology to support modern working patterns, better ventilation, and increased levels of security, to better prepare us for the future. Having moved, we are currently in the process of selling our previous head office, and have successfully arranged the sale of the property, which we aim to complete on the deal in the early stages of 2023.

2022 has been a difficult year for investment markets, but our investments have held up extremely well against a challenging economic background. Markets shown some improvements in the last quarter and our lack of exposure to fixed income investments, whose prices have fallen sharply as interest rates have increased, have assisted in preserving our wealth. Our investment portfolio, made up of collective funds and property, ended the year at £55,027,281 (2021: £60,956,293), coupled with cash and cash at the bank of £20,152,267 (2021: £17,983,852) contributes to our sustained extremely strong capital position. Dividend income received of £1,654,580 (2021: £1,255,531) was 32% higher than last and 14% higher than the previous largest year in 2019. With the investment income received, we have continued to support our local community, making charitable donations of £482,035 (2021: £447,972). During 2022, The Board made the decision to buy The Waterfront, a purpose built office building, accommodating multiple tenants. The completion of this purchase will be finalised in early 2023 and looks to diversify our investment portfolio and further strengthens our investment income. The Board agree to continue investing in good quality equities through collective funds for the medium to long term, alongside a more defensive element provided by our cash and deposit holdings.

Key performance indicators (KPI)

The Board use the following KPIs to measure performance against objectives:

	2022	**2021**
Earned premium reduction	£(227,117)	£(467,531)
Underwriting results (technical income less claims)	£2,992,830	£3,469,300
Operational expenses relative to earned premium	33%	29%
Surplus/(deficit) on ordinary activities after taxation	£(1,323,925)	£7,200,560
% of claims paid relative to earned premiums	69%	66%
Solvency II ratio (unaudited)	326%	248%

Key performance indicators are reviewed within the sub groups on a regular basis. The Board are happy with performance against all KPIs, and commentary on each section is detailed on the next page.

Please note, any reference to Solvency II in this annual report and accounts is in the context of the UK Prudential Regulation Authority rules.

Earned Premium

Net earned premiums reduced by £227,117 as our member base shrunk in the year. This result was better than forecast, and also an improved position of last year's reduction of £467,531. Overall, sales activity surpassed our target but unfortunately did not exceed the number of customers that had lapsed. This outcome did not come as a surprise as worksite sales visits didn't recommence until the latter half of the year in addition to high inflation and the impacts of the cost of living crisis affecting household incomes.

Underwriting Results

Underwriting results decreased by £476k as a direct result of claiming behaviour rising. This was apparent as the frequency at which policyholders claimed increased, especially on the benefits which were affected by COVID, such as dental and hospital inpatient. This can be perceived as a consequence of the pandemic with customers "catching up" on treatment compared to 2020 and 2021, where claiming frequencies were down.

Operational Expense Ratio

Operating expense ratio is calculated by taking the net operating expenses over net earned premium, showing the proportion of premiums which are used in running the insurance business. The target ratio for the year was 33%, slightly above target. This is an increase compared to 2021, however this was anticipated as operations returned to pre pandemic levels, additionally as with most services, costs have increased as the economy felt the pressures from the cost of living crisis.

Deficit on ordinary activities after tax

Deficit on ordinary activities after tax for the year was £1.3m compared to prior years surplus of £7.2m. Surplus on ordinary activities after tax can fluctuate as a result of the non-technical account as investment returns can vary dependent on market conditions. Unfortunately, markets had a turbulent year as a result of the conflict between Russia and Ukraine, UK government uncertainty and high inflationary pressures causing a cost of living crisis. Having said that, markets started to improve in the last quarter of the year. Investment income includes income from collective investments net of investment management fees, interest from cash and timed deposits, plus gains or losses realised on investments. Dividend income improved on prior year, the amount realised was more than sufficient to fund our donations, which is in line with our investment strategy.

Claims Loss Ratio

Claims loss ratio indicated the proportion of earned member premiums which are paid out in claims, over the 12 month reporting period. The claims paid value used does not include provisions and additional benefits we provide to members through third party suppliers.

Compared to a target ratio between 65-75%, the claims loss ratio has increased further on prior years position to 69% but remained within the target ratio range. This is seen as positive, as customers were able to access treatment and claim back the costs.

Solvency II Ratio (unaudited)

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. The company is strongly capitalised with a Solvency II capital surplus of £52.2m (2021: £46.3m) representing a solvency coverage ratio of 326% (2021: 248%). Capital requirements have decreased by £8.2m as a direct result of reducing our exposure to equities coupled with the market value loss. The capital charge relating to market risk equates to £21.8m (2021: £30m). The Board will continue to review and consider the coverage levels on a periodic basis, should the ratio drop below 200%, this would trigger management actions.

	2022	**2021**
	£	**£**
Own Funds – Group	75,337,735	77,613,698
Solvency Capital Requirement	(23,087,951)	(31,293,918)
Solvency II Capital Surplus	52,249,784	46,319,780
Solvency Cover Ratio	**326%**	**248%**

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

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 risk and compliance and audit and governance 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 2023 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.
- Regularly review and update 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 are:

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 shocks are monitored, and specific capital is held to mitigate against the potential drop in market value of the invested portfolio. The Solvency II capital charge relating to market risk equates to £21.8m (2021: £30m). The coverage ratio of 326% remains well within the Group's risk appetite. Refer to the Solvency II Capital Position on the prior page and note 14 on financial instruments.

The Russian invasion of Ukraine continues along with the backdrop of the cost of living crisis. The Board understands the investment market remains volatile throughout periods of uncertainty and remains in regular contact with our Investment Advisors. Through the assessment of underlying stocks within our collective funds, our exposure to Russian stocks is deemed negligible. We continue to believe our portfolio is well diversified and balanced, between growth and value stocks, adding a certain degree of reassurance through turbulent times. As stated previously, our objective to invest over a medium to long term time horizon means we can tolerate market shocks. This approach coupled with our defensive approach to holding large cash balances, will act to protect the Company's strong capital position. The Directors continue to closely monitor market conditions and its impact on our investment 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. All our IT infrastructure is located at specialised data centre for additional security and resilience. A business continuity plan including data backed up at a remote location and a workplace recovery site, is in place. Our IT infrastructure and application security and resilience is under constant review and is periodically test by an independent supplier. Systems and operational risks are discussed at the Risk and Compliance sub group, which meet bi-monthly 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. Refer to note 14 on financial instruments.

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, accountancy, banking and insurance broking and we firmly believe the Board consists of appropriate skills and experience. Please refer to page 11 for changes to the Board composition during the year.

The ratio of male/female Board members has changed over the years when directors have retired 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 going forward all newly appointed Non-Executive Directors will be limited to serving a 9 year term to ensure independence.

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.

Each sub group has a terms of reference (TOR), defining the purpose of the group including roles and responsibilities. Terms reference are reviewed at least annually alongside membership to ensure an appropriate balance of expertise, diversity and objectivity.

Risk and Compliance

The risk and compliance sub group consists of three non-executives, two executive directors, and The Head of IT and Operations and the groups principle role is to:

• monitor and oversee compliance and risk controls
• monitor and oversee the ORSA process
• review, monitor and advise on regulatory requirements and developments
• oversee the customer conduct obligations
• Review and monitor system and IT risks feeding into risk management
• Oversee, monitor and make recommendations on the current risk exposures of the company and future risk strategy

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.

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.

Audit and Governance

The audit and governance sub-group consists of four non-executives and two executive directors. This groups principal role is to:

• monitor the integrity of the financial statements and regulatory returns including Solvency II reporting
• review and monitor effectiveness of internal controls
• monitor the effectiveness, performance and objectivity of the internal and external auditors
• review and monitor the appropriateness of Trade Body Corporate Governance requirements

The sub group provides the Board with a view as to the approach and appropriateness of the internal and external audit functions. 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.

Commercial

The commercial sub group consists of four non-executives, two executive directors and the Head of Sales and Marketing, meeting to review and discuss the following:

• Monthly financial reports
• Unexpected costs outside approved budget
• Sales performance
• Sales and marketing strategy
• Product development
• Distribution channels
• Investment strategy and performance

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. 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. 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 Aegon, previously Cofunds, until the Board agree the next steps.

Remuneration

The remuneration sub group is made up of two non-executive directors and the group review and discuss the follow:

- Remuneration of the Non-Executive Directors
- Remuneration of Executive Directors
- Review and agree bonus percentage and salary increases for staff
- Review effectiveness of the bonus scheme

This sub group makes specific proposals for approval by the Board.

Community Programme

The community programme sub group includes one executive and three 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.

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 2022, attendance at all board meetings and sub groups was 91% (2021: 94%).

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. Sovereign Health Care have elected to appoint a Senior Independent Director, who will assess the Board effectiveness on an annual 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 comprehensive income for the year are set out on pages 24 to 25.

It is proposed that the deficit of £1,323,925 transferred from the group's reserves, giving a retained reserve of £76,321,125.

Investments and tangible assets

The changes in fixed assets and investments during the year are explained in notes 12 and 13 to the financial statements.

Market value of investment property

In the opinion of the directors the property has a market value of £788,562; this valuation has been incorporated into the accounts. The property was actively marketed for resale and revalued at the accepted unconditional offer price less any costs to sell the property.

Compliance with the AFM Corporate Governance Code

The Board have sought to comply with the Association of Financial Mutuals (AFM) governance code.

Sovereign Health Care adopts the AFM Corporate Governance Code in an appropriate manner for the size and complexity of our organisation. The statements below set out the principles and how Sovereign Health Care have applied them:

- **Purpose and Leadership**

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

  Sovereign Health Care has three simple purposes:

- To provide value for money products and services to its customers
- To be an important employer in Bradford, the geographic area where the business has existed since 1873
- To generate sufficient funds from its investments to donate the equivalent of between 5% and 10% of turnover each year to its chosen communities, subject to affordability

  To support these purposes, it is essential that all staff understand the company goals and objectives, how this aligns with a unique set of cultures and values and feel they can buy into and own these principles. To achieve this the group commenced a cultures and values change programme which is ongoing. The purpose of this programme is to focus on how we treat and interact with each other as colleagues, customers and other stakeholders which is essential to achieve good quality outcomes and is integral to our company strategy.

  The business objectives are detailed in the Strategic report on pages 3 and 4.

- **Board Composition**

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

  Sovereign is a not for profit company limited by guarantee, and not a true mutual so its governance arrangements are not the same as a Mutual Society, and in some cases need to be brought up to date in a changing regulatory environment. The Board felt it prudent to amend the Articles of Association in 2019 to reflect newly appointed NEDs would only serve a 9 year maximum term, ensuring independent challenge and effective governance.

  The Board recognise that it is essential that it has the right mix of skills and knowledge that support the business model and the philanthropic approach to health and wellbeing and the communities we support. The Board has a mix of professionals covering accountancy, audit, business strategy, legal and medical, as well as the requisite experience of financial services and the insurance industry. All Board members are considered for reappointment every three years.

  We welcomed a new NED to the Board from 1 January 2022, Jon Craven, who has extensive knowledge of the mutual and financial services sector. At the end of March 2022, regrettable, we said goodbye to three long standing NEDs leave the Company, making all NEDs independent, with less than nine years' service.

  The Senior Independent Director, reviews Board effectiveness every year by way of individual feedback with all non-executive directors and reports back to the main Board with their findings.

- **Director Responsibilities**

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

  Sovereign Health Care's articles of association were updated in 2019 alongside the Board rules. The articles give full details on the responsibilities of the Directors and the Board and subgroups. These sub groups and detailed information about Board governance is set out in the strategic report.

  Under the Senior Management and Certification Regime (SM&CR), each director including Senior Management Function (SMF) holders and Non-Executive Directors, have the appropriate statement of responsibilities documented. The Group also has an overarching responsibilities map and is updated accordingly. Each director completes an annual fitness and propriety declaration, including acknowledgement of their responsibilities, the PRA fundamental rules and the FCA principles for businesses.

  Effective processes, systems and controls enables the production of quality management information, including, but not limited to, financials, risk management, and business trends. Clear and accurate management information is provided to sub groups and the Board in a timely manner enabling them to make informed decisions with the relevant facts and information.

  Please also refer to the corporate governance structures and sub group responsibilities on pages 8 to 10

Compliance with the AFM Corporate Governance Code (continued)

- **Director Responsibilities**

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  Please also refer to the corporate governance structures and sub group responsibilities on pages 8 to 10.

- **Opportunity And Risk**

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

  Sovereign Health Care utilises the three lines of defence in the risk management framework. The model comprises primary risk owners (first line), independent risk management and control functions (second line) and independent internal audit assurance group (third line).

  First line: The vast majority of employees, examples include service manager, technology teams supporting the business platforms, client serving teams and servicing client enquires.

  Second line: A smaller group of employees, these have duties with the Risk & Control functions and provide independent oversight of the activities performed within the first line.

  Third line: Outsourced Internal Audit Function and External Auditors. The Chair of the audit and governance sub group is the direct point of contact for both internal and external auditors.

  The risk matrix is reviewed by the appropriate sub groups with information presented as a RAG chart, with descriptions to support the current status presented. Please also refer to the key risks and uncertainty section of the Strategic report on pages 7 and 8.

Compliance with the AFM Corporate Governance Code (continued)

- **Remuneration**

  The Board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation. With this in mind, the Board felt it appropriate to create a standalone remuneration sub group in 2020, the key responsibilities are outlined on page 9.

  On two occasions in the past 6 to 8 years, the Board have engaged an external consultancy to benchmark pay for both executive and non-executive directors, as well as all job roles within the company. The aim of this is to ensure remuneration structures are sufficient to attract the right caliber of individual for key roles. Non-executive directors are paid a flat rate with the Chair receiving a slightly enhanced payment. Executive Directors receive a basic salary, bonus, contributory pensions schemes, health benefits and car allowance/company car.

  The Board commissioned a piece of work to consider remuneration levels across the business including Executive Directors. In line with Article 275 under Solvency II, pay systems must be relevant and proportionate to the business model and the ongoing risks. The Board unanimously agreed, the maximum bonus payable would be reduced by 58% and would continue to be assessed on performance against the company's strategic goals and operational KPIs.

  The company carries no long term risks and bonus payments are awarded against a balanced business scorecard.

- **Stakeholder Relations and Engage**

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

  As a not for profit company, Sovereign does not have members like a true mutual. It has identified key stakeholders as the workforce but seeks to give customer similar benefits and service they may expect to receive from a true mutual. The group's policy is to consult and discuss with employees, at regular intervals, matters likely to affect employees' interests

  Technically Sovereign's members are the Directors, and this is way the recruitment of new directors and the importance of the philanthropic nature of the business is so important. Since 1873 Sovereign has supported the local community in many guises and wishes this to continue for years to come.

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

  Furthermore, the ongoing cultures and values change programme, involves employees at all levels by way of workshops and discussion groups. The continued involvement of staff is seen as crucial to the success of the program.

  Customer feedback is collected each year through a customer survey and has recently moved to a digital basis to collate feedback more effectively.

Statement of director's duty to promote the success of the company under Section 172(1) of the Companies Act 2006

In accordance with Section 172 of the Companies Act, the Directors continue to have regard to the interests of stakeholders and other matters in their decision making. The Directors act, in good faith, considering what would be most likely to promote the success of the company and in doing so have regards to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the needs to act fairly.

Statement of director's duty to promote the success of the company under Section 172(1) of the Companies Act 2006 (continued)

The Board believe the key stakeholders for Sovereign Health Care are our employees, customers, suppliers, regulator and our communities. We have built and maintained relationships with each of these stakeholder groups throughout the year and in accordance with Section 172 (1) the following is a summary of how we have engaged with them:

Stakeholders affected	Decisions and Impact
Employees	Our employees are vital to the successful delivery of our strategic plan. The health, safety and well-being of all our employees is considered a part of all key decisions and we strive to manage our people's performance and personal development whilst continuing to act as responsible employer in our approach to pay and benefits awarded. We continuously engaged with our staff throughout the year through staff briefings and surveys, seeking opinions from all business areas. We have sought feedback on ways of working in the future, and since implemented hybrid working. Regularly communicating and engaging with staff on the office move was key to its success, ensuring staff were listened too and that their concerns were addressed. Additionally, to recognise the rising cost of living, we issued most employees, excluding directors, with a one-off cost of living payment to help combat the impact of soaring inflation and higher bills.
Customers	Customers sit at the heart of our business, providing them with support towards their everyday healthcare and wellbeing costs, which has become even more poignant in the last two years. Customers wants and needs are at the forefront of our business, and we have sought their insights and feedback by means of survey. Overall, the results were positive with 96% of our customers being satisfied with their cash plan and 95% of our customers would recommend Sovereign Health Care to a friend or family member. It was also pleasing to note overall customer satisfaction has remained the same.
Regulators	Our core values and principles align with those of the regulator, "putting people first" and acting with integrity remains a key focus. We maintain robust governance and risk frameworks ensuring compliance with the FCA regulations and Solvency II Directive. We proactively engage with the regulators directly and through the Association of Financial Mutuals, and actively respond to the consultation papers issued by the regulator to ensure the right outcome for the end consumer is met.
Communities and the environment	Bradford was named City Culture for 2025 in the summer of 2022. This is a huge achievement for our city, which has been part of Sovereign Health Care's DNA since we were founded, 150 years ago. We have made a commitment to Bradford by becoming delivery partners to further boost ambitions to develop and deliver a UK City of Culture programme that puts health and wellbeing at its heart.
Suppliers	We value all our business relationship and have contracts with our key suppliers. Through strong and actively engaged relationship we can ensure our operational activities work efficiently and effectively and projects, such as our IT strategic developments, are delivered to high quality.
Communities	Donations of £482k made in the year were agreed by the Board and paid to local communities or charitable initiatives with a health and wellbeing focus. This included significant donations to the NHS, gifting £103k to Yorkshire Trusts as part of the ongoing commitment to supporting health services in the region.

To ensure compliance with Section 172 of the Companies Act, the Board formally meet bi-monthly, supported by a number of sub committees attended by Executive Directors, Non-Executive Directors and senior employees within the company. Individuals who sit on specific sub committees are selected by their role in the company and specialist knowledge. Refer to pages 8 to 10 for the sub-group responsibilities and corporate governance structures.

The discussions and decision making at these meetings, allow informed judgement to ensure the long term sustainability of the company business model, ensure stakeholder engagement where appropriate and provide oversight on the day to day running of the business. This is also evidenced by specific activities noted above and on pages 11 to 13 of the Strategic Report.

On behalf of the Board

J. C. Fortune – Chair
Director
12 April 2023

The directors present their report and financial statements for the year ended 31 December 2022.

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 of the Group, at the date of the report, have held office since 1 January 2022:
R. J. H Craven (Appointed 1 January 2022)
S. R. Davies – Senior Independent Director
A.D.G. Dawson
J. C. Fortune – Chair
K. Hinds
R. S. Piper – Chief Executive
S. M. Sedgwick
N. J. Stewart

The following directors who served for part of the year are below:
M. S. Bower (Resigned 31 March 2022)
S. M. Cummings (Resigned 31 March 2022)
M. C. Hudson (Resigned 31 March 2022)

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

Future Developments
The group continues to develop and monitor its products and strategic direction and will always act in the best interests of our customers, community, and employees. Our focus in the upcoming years will be on strengthening our growth strategy by expanding our sales and customer service teams, recruitment and succession planning for our current Chief Executive, developing and embedding the strategy for the new commercial property business, improving our systems and operations to ensure the customer journey delivers good outcomes whilst reviewing our product range to ensure we optimise customer fair value.

Political and charitable contributions
The group does not make any political contributions. During the year the company made charitable contributions of £482,035 (2021: £447,972).

Emissions and energy consumption
The Directors believe in respecting the environment and conducting our business in a responsibly way. Having a relatively low headcount, on average 41 employees, our environmental impact is fairly low. Our total annual carbon footprint has been calculated following the Green House Gas (GHG) Protocol, which divides emissions into three scopes:

- Scope 1 – The emissions that a company makes directly, for example while running a boiler
- Scope 2 – The emissions that a company makes indirectly, like the electricity or energy it buys for heating and cooling
- Scope 3 – The emissions that occur as a consequence of a company's activities and processes, such as business travel

The table set out the Group's carbon dioxide equivalent (CO2e) based on emissions made and energy consumed within the UK only:

Type	**2022 (CO2e)**	**2021 (CO2e)**
Scope 1 – emissions from combustible gas	5.9	8.8
Scope 2 – emissions from purchased electricity	14.7	18.1
Scope 3 – emissions from operations	49.2	10.3
Total	**69.8**	**37.2**
Intensity Ratio – per employee	**1.7**	**0.9**

Emissions and energy consumption (continued)

The scope 1 and 2 emissions are calculated using our annual consumption of energy, taken directly from electricity and gas statements, totalling 94,669 kWh (2021:126,235). This improved position is encouraging, and we continue to review ways of reducing our energy usage, including when refurbishing the new head office. Where possible, we selected materials which were locally sourced in the UK and/or reduced our carbon footprint. The scope 3 emissions have significantly increased, as previously we did not have the data available from our operations. Scope 3 emissions now include estimates on heating used by employees working from home, staff commuting, in-work mileage and travel and other goods or services used in our operations, such as postage.

In 2021 we launched the first steps in reducing our paper usage by implementing the paperless claims journey for our customers, reducing printing and postage of claim statements by 50%. The next stage in the paperless journey, was the addition of the paperless welcome packs and the introduction of the corporate invoicing portal, which were both launched in 2022.

Where possible, we encourage the use of minimal printing and promote the recycling of paper and cardboard. As with any business, travel is required for certain team members however we encourage our staff to use other means of transport wherever possible. Furthermore, video conference has been utilised as an alternative means of communication method, including supplier, sub-group, and Board meetings.

Our investment strategy is focussed on delivering medium to long term growth whilst creating sufficient dividend income to fund the Community Programme. The Board accept there is an element of financial risk relating to climate change, specifically transition risk associated with investing into collective funds. Our collective funds, valued at £54.2m, present the largest risk. The Board have opted for an engagement strategy with our asset managers, and our investment advisors are in continuous talks with the fund managers to discuss environmental, social and governance (ESG) consideration as well as performance. All the funds we are invested in have embedded ESG considerations in their investment process, to varying degrees. All the fund managers have incorporate understanding and pricing the environmental and societal risks in the companies they select.

Through the commercial sub-group and the Board, our investment advisors present ESG ratings for each collective fund including the following measures:

- Peer rank
- Global rank
- % of "green" revenue
- % of "brown" revenue
- Carbon intensity figure
- Carbon intensity figure (CIF) band
- Overall ESG rating

Of our current portfolio, less than 2% of the underlying companies held by each fund, are rated B or below, using the MSCI ESG data. Over half of the portfolio's companies are rated ESG leaders, with ratings of AA to AAA. The active asset managers within our portfolio all prefer sustainable business models and good governance, and with the increasing focus on ESG considerations, the Directors were pleased these funds produced above average ratings as a result.

With active engagement, rather than an exclusion mandate, the focus is on evaluating and monitoring effective risk management of climate change whilst keeping ESG ratings as an indicator.

Having regard to the nature of our strategic plans, the Board does not consider climate change to be of significant risk in the medium term but continue to monitor and manage any risks that arise. The Group keeps a watchful eye on developments to ensure understanding of the effects of climate change are appropriately reflected in our strategic plans and ORSA.

Directors' reporting disclosures
The Strategic Report contains disclosures otherwise required to be contained in the Directors' Report.

The Group's financial instruments comprise its financial investments, cash, and various items arising directly from operations such as insurance and other debtors, technical provisions and creditors. The main risks to which the Group is exposed are insurance risk, IT risk, market risk, liquidity risk, credit risk, regulation risk and emerging risks. The Group's approach to management of these risks are disclosed in the Strategic Report and notes to the Financial Statements

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.

Each of the Directors of the Company at the date when this report was approved confirms that:

- So far as each Director is aware, this is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- each Director has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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 company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and company financial statements for each financial year. Under that law they have elected to prepare the Group and company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 and FRS 103, 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 company and of their statement of comprehensive income for that period. In preparing each of the Group and 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 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the 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.

On behalf of the Board

Ian Fortune

J. C. Fortune - Chair
Director
12 April 2023

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Sovereign Health Care (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the consolidated statement of comprehensive income – non-technical account and consolidated statement of comprehensive income – technical account, the consolidated and the company statements of change in equity, the consolidated and the company statements of financial position, the consolidated statement of cash flow and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on September 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 5 years, covering the years ending 31 December 2018 to 31 December 2022. We remain independent of the Group and 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. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group and company's ability to continue to adopt the going concern basis of accounting included:

- Challenging the appropriateness of the Directors' assumptions and judgements made in their current plans and forecast. In doing so we agreed key assumptions such as forecast growth to historic actuals, relevant market data and our general commercial and sector experience and considered the historical accuracy of the Directors forecasts; and
- Considered the accuracy of the Directors forecasting ability through comparison of prior year forecasts against actual results; and
- We considered the impact of Russia/Ukraine and the cost of living crisis on the activities of the Company and its financial position based on our knowledge of the Company; and
- We have reviewed key business planning documents such as the Own Risk Solvency Assessment ('ORSA') and the SFCR to assess the adequacy of capital planning.

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

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

Overview

Coverage	**100% (2021: 100%) of Group loss before tax** **100% (2021: 100%) of Group revenue** **100% (2021: 100%) of Group total assets**
Key audit matters	<table><tr><th></th><th>2022</th><th>2021</th></tr><tr><td>Insurance Provisions (IBNR)</td><td>✓</td><td>✓</td></tr><tr><td>Valuation of Freehold Land and Buildings</td><td>×</td><td>✓</td></tr></table> Valuation of freehold land and buildings was identified as KAM in prior year. As at this year end, the fair value is determined based on actual offers received therefore we have removed this risk as a KAM.
Materiality	**Group financial statements as a whole** £1,526,000, (2021 - £1,548,000) based on 2% of net assets (2021: 2% of net assets)

An overview of the scope of our audit

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

The Group consists of the Parent Company and three subsidiaries including one incorporated in late 2022 but not consolidated as the first accounts are due at for the 2023 year. Only the Parent undertaking is considered to be a significant component, however full scope audits were performed on the Parent and the other two subsidiary entities. All audit work was performed by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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. This matter was 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 this matter.

Key audit matter	How the scope of our audit addressed the key audit matter
Insurance provisions (claims incurred but not reported ("IBNR")	
Refer to the accounting policy in note 1.4 and 2 further information given in note 16. Insurance provisions includes liabilities for claims incurred but not reported (IBNR) as at 31 December 2022. 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 therefore considered Insurance provisions IBNR to be a key audit matter.	We obtained a detailed understanding of the methodology adopted by management and the key assumptions underpinning the calculation to check that methodology adopted is in accordance with accounting standards. We performed a retrospective review of the prior year estimate by comparing with actual results to consider the appropriateness of management's estimate in the prior year. The results 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 by agreeing the amount of historic claims payments with actual claims paid monthly report. 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 in order to assess the accuracy of the estimates made. 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 Observations:* Based on the work performed we consider the judgements and estimated made by management to be appropriate.

Our application of materiality

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

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

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

	Group financial statements		Parent company financial statements	
	2022 (£'000)	2021 (£'000)	2022 (£'000)	2021 (£'000)
Materiality	1,526	1,548	1,496	1,532
Basis for determining materiality	2% of Net assets.			
Rationale for the benchmark applied	In establishing an appropriate benchmark to use, we considered various financial measures including those used by 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.			
Performance materiality	991	1,006	972	995
Basis for determining performance materiality	65% of materiality			
Rationale for the percentage applied to performance materiality	The level of performance materiality applied was set after having considered a number of factors including our consideration of the overall control environment, the expected total value of known and likely misstatements and the number of accounts subject to estimation.			

Specific materiality

We also determined that for items that impact the income statement alone (such as premiums, claims paid and operating expenses), a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for the Group and the parent company for these items to be £133,000 (2021: £135,000) based on 1.3% of gross written premiums for the year ended 31 December 2022. (2021: 1.3% of gross written premium).

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £45,420 (2021:£46,440) for the group and £44,880 (2021: £45,960) for the parent company. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Other information

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

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

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and 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.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the 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 Statement of directors' responsibilities in respect of the annual report, strategic report, the directors report and the financial statements, 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.

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

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

Fraud

To identify risks of material misstatements due to fraud, we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and management as to whether they have knowledge of any actual, suspected or alleged fraud.
- Inspecting Board and Audit and Governance Committee minutes for any indicators of any actual, suspected or alleged fraud.
- Identifying any unusual journal entries based on characteristics of journal posting date and description.
- Using analytical procedures to identify an unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications for fraud throughout the audit. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, including the valuation of technical provisions (KAM 1), claims payments and management override of controls.

Our work over claims payments included a test of controls over claims authorisation and payment. We also 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 ensured that our audit procedures performed covered these risks. In addition, we also considered the risks around journals posting and tested a sample of journals using the BDO Advantage tool. We have tested these journals by obtaining supporting documentation and verifying the journal rationale with management and our understanding of the business.

Non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management, and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

Based on:

- Our understanding of the Group and the Company and the industry in which they operate;
- Discussion with management and those charged with governance;
- Obtaining and understanding of the Group's and the Company's policies and procedures regarding compliance with laws and regulations; and
- Inspecting Board and Audit Committee minutes

we considered the significant laws and regulations to be the Companies Act 2006, Financial Reporting Standards 102 and 103 applicable in the UK and Republic of Ireland and the Association of Financial Mutual's Corporate Governance Code.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We performed procedures including:

- inspecting correspondence with the PRA and FCA; and
- enquiring of the Directors and other management of instances of non-compliance.

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

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

Use of our report

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

DocuSigned by:
John Perry
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John Perry (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom
12 April 2023

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

SOVEREIGN HEALTH CARE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	£	2022 £	£	2021 £
Technical Account - General Business					
Gross premiums written		9,936,280		10,186,886	
Change in gross provisions for unearned premiums	**16**	46,288		22,799	
Net premiums earned	**3**		9,982,568		10,209,685
Other technical income					
Other income/commissions received			81,293		87,260
Allocated investment returned transferred from non technical account	**8**		1,761,010		1,294,532
			11,824,871		11,591,477
Claims and claims handling expenses paid		(7,001,425)		(6,860,601)	
Change in the gross provision for claims	**16**	(69,606)		32,956	
Claims incurred	**4**		(7,071,031)		(6,827,645)
Net operating expenses	**5**		(3,294,086)		(2,931,543)
Change in other provisions	**18**		1,632		4,415
			(10,363,485)		(9,754,773)
Balance on the technical account for general business			1,461,386		1,836,704

The notes on pages 30 to 46 form an integral part of the financial statements.

SOVEREIGN HEALTH CARE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £	2021 £
Non-technical Account			
Balance on the technical account for general business		1,461,386	1,836,704
Investment income	8	9,852,368	5,465,481
Investment return allocated to technical account	8	(1,761,010)	(1,294,532)
Unrealised (loss)/gain on investments		(11,111,415)	2,880,563
Revaluation (loss)/gain on investment property	13	113,562	-
Other charges	9	(91,809)	-
Charitable donation		(482,035)	(447,972)
(Deficit)/surplus on ordinary activities before taxation		(2,018,953)	8,440,244
Tax on ordinary activities	10	695,028	(1,239,684)
(Deficit)/surplus on ordinary activities after taxation		(1,323,925)	7,200,560

The consolidated statement of comprehensive income 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 comprehensive income has not been included in these financial statements.

The notes on pages 30 to 46 form an integral part of the financial statements.

SOVEREIGN HEALTH CARE

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

		Total Reserves
Group	**Notes**	**£**
At 1 January 2021		70,444,490
Surplus for the year		7,200,560
Balance at 31 December 2021		77,645,050
At 1 January 2022		77,645,050
Deficit for the year	**20**	(1,323,925)
Balance at 31 December 2022		76,321,125

Company		
At 1 January 2021		69,672,845
Surplus for the year		7,152,603
Balance at 31 December 2021		76,825,448
At 1 January 2022		76,825,448
Deficit for the year	**11 & 20**	(1,376,708)
Balance at 31 December 2022		75,448,740

SOVEREIGN HEALTH CARE

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2022

		Group		Company	
		2022	2021	2022	2021
	Notes	£	£	£	£
ASSETS					
Investments					
Investment in subsidiaries	13	-	-	10,200	10,100
Investments	13	55,029,800	60,958,812	55,029,800	60,958,812
		55,029,800	60,958,812	55,040,000	60,968,912
Debtors					
Debtors arising out of direct insurance operations		474,787	456,800	459,247	475,543
Other Debtors	15	1,644,593	128,715	1,868,489	287,925
		2,119,380	585,515	2,327,736	763,468
Other Assets					
Tangible assets	12	912,685	712,922	912,685	712,922
Cash at bank and in hand		20,152,267	17,983,852	18,981,448	16,934,402
		21,064,952	18,696,774	19,894,133	17,647,324
Prepayments and accrued income		354,013	305,639	346,881	298,520
Total assets		**78,568,145**	**80,546,740**	**77,608,750**	**79,678,224**

SOVEREIGN HEALTH CARE

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

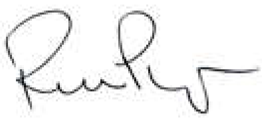
FOR THE YEAR ENDED 31 DECEMBER 2022

		Group		Company	
		2022	**2021**	**2022**	**2021**
	Notes	**£**	**£**	**£**	**£**
RESERVES AND LIABILITIES					
Technical provisions					
Provision for unearned premiums	**16**	382,462	428,750	382,462	428,750
Provision for claims outstanding	**16**	657,217	586,674	657,217	586,674
Provision for claims handling expenses	**16**	13,048	13,985	13,048	13,985
		1,052,727	1,029,409	1,052,727	1,029,409
Other provisions	**18**	297,663	101,869	297,663	101,869
Creditors					
Other creditors including taxation and social security	**17**	456,548	1,317,201	394,991	1,265,484
Accruals and deferred income		440,082	453,211	414,629	456,014
Total liabilities		2,247,020	2,901,690	2,160,010	2,852,776
Net assets		76,321,125	77,645,050	75,448,740	76,825,448
Capital and reserves					
Reserves	**20**	76,321,125	77,645,050	75,448,740	76,825,448
		76,321,125	77,645,050	75,448,740	76,825,448
Total reserves and liabilities		**78,568,145**	**80,546,740**	**77,608,750**	**79,678,224**

The company's deficit for the financial year is £1,376,708 (2021: £7,152,603 surplus) – see note 11.

The notes on pages 30 to 46 form an integral part of the financial statements. The financial statements were approved by the Board of directors and authorised for issue on 12 April 2023.

Signed on its behalf by



R. S. Piper – Chief Executive
Company Registration No. 00085588

SOVEREIGN HEALTH CARE

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £	2021 £
Cash flows from operating activities			
Surplus/(deficit) on ordinary activities before taxation		(2,018,953)	8,440,244
Adjustments for:			
Investment income		(1,761,010)	(1,294,532)
Depreciation and impairment of tangible fixed assets	12	34,761	15,065
Revaluation (loss)/gain on investment property	13	(113,562)	-
Loss/(gain) on sale of investments		(8,404,416)	(4,485,690)
Unrealised loss/(gain) on Investments		11,111,415	(2,880,563)
(Increase)/decrease in debtors, prepayments and accrued income		(13,368)	(7,082)
Increase/(decrease) in creditors, provisions, accruals and deferred income		(8,705)	(50,428)
Cash from operations		(1,173,838)	(262,986)
Income taxes paid		(762,915)	(828,921)
Net cash from operating activities		(1,936,753)	(1,091,907)
Cash flows from investing activities			
Dividend and Interest received		1,754,094	1,276,441
Purchase of fixed assets		(909,524)	(7,358)
Purchase of other investments		(18,020,274)	(13,143,960)
Deposit for purchase of property		(750,000)	-
Proceeds on disposal of other investments		22,030,872	11,128,087
Net cash from investing activities		4,105,168	(746,790)
Net increase/(decrease) in cash and cash equivalents		2,168,415	(1,838,697)
Cash and cash equivalents at beginning of year		17,983,852	19,822,549
Cash and cash equivalents at end of year		20,152,267	17,983,852

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 The Waterfront, 2nd Floor, West Wing, Salts Mill Road, Shipley, BD17 7EZ.

1.1 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 and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The preparation of financial statements in conformity with FRS 102 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 2.

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 comprehensive income and statement of financial position include the financial statements of the company and its subsidiary undertakings made up to 31 December 2022. The results of subsidiaries sold or acquired are included in the consolidated statement of comprehensive income 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 comprehensive income 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 cash flows statement, on the basis that it is a qualifying entity and the Group's consolidated cash flow statement, included in these financial statements, includes the Company's cash flows; and

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

1.2 Going concern

Based upon the detailed analysis, the directors have reviewed the Group's profit and loss forecasts over a 3 year period from 2023 to 2025, the Solvency II capital requirements and coverage ratios including stress testing on the Solvency II coverage tolerance levels. 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.

1.3 Premiums earned

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.

1 Accounting policies (continued)

1.4 Claims incurred

Claims incurred are recognised in the accounting period in which the claims and claims handling costs were paid, together with the movement in the provisions for claims incurred but not reported and the associated estimated claims handling costs relating to outstanding claims at the statement of financial position date.

Provision is made for the estimated cost of claims incurred up to the statement of financial position date. The provision is based on claims settled after the statement of financial position date together with an estimate of claims incurred by the statement of financial position date but not notified based on statistical methods. In accordance with the terms and conditions of the policy, claims must be submitted within 12 months of the date any treatment was received.

1.5 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. Investment income is recognised net of investment management fees.

1.6 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:

Software Development Costs	25% p.a. straight line

1.7 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/tenant 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

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 through the surplus/deficit on ordinary activities when realised.

1 Accounting policies (continued)

1.8 Financial Investments

Investments listed on a recognised stock exchange are held at current market value, bid price, with any changes being recognised through the surplus/deficit on ordinary activities.

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are held at fair value, at the date of valuation. The fair value of the property is usually considered to be their market value. Any gains and losses arising from changes in the fair value are recognised through the surplus/deficit on ordinary activities.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transactions and its latest fair value or carrying value.

Unrealised gains or losses represent the difference between the fair value at the balance sheet and their purchase price during the financial year or their fair value at the previous financial year-end.

All income on investments excluding investment management fees and realised gains is transferred from the non-technical account on receipt.

1.9 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 through the surplus/deficit on ordinary activities, 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 through the surplus/deficit on ordinary activities, 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.

1.10 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.

1 Accounting policies (continued)

1.11 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 surplus/deficit on ordinary activities are measured at fair value.

Loans and receivables

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

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

Impairment of financial assets

Financial assets, other than those held at fair value through 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 through the surplus/deficit on ordinary activities.

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.

1 Accounting policies (continued)

1.12 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 surplus/deficit on ordinary activities 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.

Dereognisation of financial liabilities

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

1.13 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 comprehensive income 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.

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.

1.14 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 through the surplus/deficit on ordinary activities in the period it arises.

1 Accounting policies (continued)

1.15 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.

1.16 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as the services are provided.

1.17 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.

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 through the surplus/deficit on ordinary activities 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.

Leases that do not transfer all the risk and rewards of ownership are classifies as operating leases. Payments under operating leases are charged through the surplus/deficit on ordinary activities on a straight-line basis over the period of the lease term. The Group's operating leases are detailed in note 21 of the financial statements.

2 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 of £657,217 (2021: £586,674) 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. Refer to note 16 of the financial statements.

Investment property valuation

As at 21 November 2022, the land and buildings were no longer being used for the company's own purposes, and therefore reclassified under investments. The fair value, £788,562 (2021: £675,000) of the investment property has been derived, after actively marketing the property for resale, at the accepted offer price less any costs to sell the property on 20 January 2023.

3 Net premiums earned

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

	2022	2021
	£	£
Gross premiums written	11,134,188	11,405,863
less: Insurance premium tax	(1,197,908)	(1,218,977)
Change in gross provisions for unearned premiums	46,288	22,799
Net premiums earned	9,982,568	10,209,685

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 consolidated statement of comprehensive income on pages 24 and 25.

4 Claims incurred

	2022	2021
	£	£
Claims paid	6,855,076	6,705,217
Claims handling expenses paid	146,349	155,384
Change in provision for outstanding claims	70,543	(28,436)
Change in provision for claims handling expenses	(937)	(4,520)
	7,071,031	6,827,645

5 Net operating expenses

	2022	2021
	£	£
Acquisition costs	1,003,825	924,086
Administration	2,290,261	2,007,457
	3,294,086	2,931,543

Operating profit is stated after charging:		
Amortisation of intangible assets	-	-
Depreciation of tangible assets	34,761	15,065
Plant and machinery operating lease costs	27,401	22,434

Auditors' remuneration (exclusive of VAT)

	2022	2021
	£	£
Fees payable to the group's auditor for the audit of the company's annual accounts	97,300	62,350
Fees payable to the group's auditor for the audit of the subsidiary companies annual accounts	11,500	11,500
	108,800	73,850

6 Employees

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

	2022 Number	2021 Number
Sales and Marketing	15	14
Customer services	6	7
Claims	9	9
Business Services	5	5
Administration and finance	6	6
	41	41

Their aggregate remuneration comprised:

	2022 £	2021 £
Wages and Salaries	1,693,046	1,612,897
Social security costs	170,307	150,165
Other pensions costs	112,640	104,784
Personal accident and health insurance	34,040	33,811
	2,010,033	1,901,657

7 Directors' remuneration

	2022 £	2021 £
Remuneration for qualifying services	437,765	398,280
Company pension contributions to defined contribution schemes	24,773	24,051
	462,538	422,331

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

	2022 £	2021 £
Remuneration for qualifying services	191,111	183,530
Contribution to defined contribution pension	15,154	14,713

8 Investment Income

	2022 £	2021 £
Income from listed investments	1,654,580	1,255,531
Bank and other interest	106,430	39,001
Allocated investment return allocated to technical account	1,761,010	1,294,532
Investment Management fees	(313,058)	(314,741)
Realised (losses)/gains on investments	8,404,416	4,485,690
	9,852,368	5,465,481

9 Other charges

	2022 £	2021 £
Community programme costs	15,873	-
Professional consultancy fees	75,936	-
	91,809	-

10 Taxation

	2022 £	2021 £
Current tax		
UK corporation tax on (deficit)/surplus for current period	(892,365)	1,367,185
Adjustments in respect of prior period	(89)	(127,501)
Total current tax	(892,454)	1,239,684
Deferred tax		
Origination and reversal of timing difference	189,035	-
Effect of revaluation	8,391	-
Total deferred tax	197,426	-
Total tax	(695,028)	1,239,684

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

	2022 £	2021 £
(Deficit)/surplus before taxation on continued operations	(2,018,953)	8,440,244
(Deficit)/surplus on ordinary activities before taxation multiplied by standard rate of corporation tax of 19.00%(2021 - 19.00%)	(383,601)	1,603,646
Effects of:		
Disallowable expenses/income	584	1,005
Revaluation of investment property	(21,577)	-
Depreciation add back	6,603	2,862
Capital allowances	(179,938)	(1,779)
Dividends and distributions received	(314,437)	(238,550)
Impact of deferred tax	197,426	-
Adjustments in respect of prior period	(89)	(127,501)
Other tax adjustments	-	1
Total current tax	(311,427)	(363,962)
Total tax	(695,028)	1,239,684

10 Taxation (continued)

At the Spring Budget 2021, the government announced the main rate of corporation tax would increase from 19% to 25% from April 2023, which was substantively enacted on 24 May 2021. As this rate has been substantively enacted at the balance sheet, deferred tax balances as at 31 December 2022 are measured at 25% (2021: 19%).

The group has no losses available for carry forward against future trading profits (2021: £nil).

11 (Deficit)/surplus for the financial year

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

	2022 £	2021 £
Holding company's (deficit)/surplus for the financial year	(1,376,708)	7,152,603

12 Tangible Fixed Assets

Group and Company

	Freehold land and buildings £	Tenant additions £	Computer equipment £	Office furniture and equipment £	Total £
Cost					
At 1 January 2022	675,000	56,120	-	89,947	821,067
Additions	-	513,636	165,564	230,324	909,524
Reclassification	(675,000)	-	-	-	(675,000)
At 31 December 2022	-	569,756	165,564	320,271	1,055,591
Depreciation					
At 1 January 2022	-	42,764	-	65,381	108,145
On disposal	-	-	-	-	-
Charge for the year	-	10,987	7,782	15,992	34,761
At 31 December 2022	-	53,751	7,782	81,373	142,906
Carrying amount					
At 31 December 2022	-	516,005	157,782	238,898	912,685
At 31 December 2021	675,000	13,356	-	24,566	712,922

As at 21 November 2022, the freehold land and buildings are no longer used for the group's own operational purposes and therefore has been reclassified as an investment property, please see note 13, Investments.

13 Investments

Group	Current assets 2022 £	Current assets 2021 £	Non current assets 2022 £	Non current assets 2021 £
Listed on a recognised investment exchange	54,238,719	60,956,293	-	-
Investment property	788,562	-	-	-
Unlisted investments	-	-	2,519	2,519
	55,027,281	60,956,293	2,519	2,519

Company	Current assets 2022 £	Current assets 2021 £	Non current assets 2022 £	Non current assets 2021 £
Investments in subsidiaries	-	-	10,200	10,100
Listed on a recognised investment exchange	54,238,719	60,956,293	-	-
Investment property	788,562	-	-	-
Unlisted investments	-	-	2,519	2,519
	55,027,281	60,956,293	12,719	12,619

As at the 21 November 2022, the freehold land and buildings has been reclassified from tangible fixed assets to investments. The investment property's fair value of £788,562 has been derived at the accepted offer price less any costs to sell the property on 20 January 2023. The directors consider this to be the fair value of the property.

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 comprehensive income.

Movement in non current asset investments

Group	Shares £	Total £
Cost or valuation		
At 1 January 2022	2,519	2,519
Additions	-	-
	2,519	2,519
Carrying amount		
At 31 December 2022	2,519	2,519
At 31 December 2021	2,519	2,519

Company	Shares £	Total £
Cost or valuation		
At 1 January 2022	12,619	12,619
Additions	100	100
	12,719	12,719
Carrying amount		
At 31 December 2022	12,719	12,719
At 31 December 2021	12,619	12,619

13 Investments (continued)

Group and company	2022 £	2021 £
Listed on a recognised investment exchange:		
Cost of share or other variable yield securities and units in unit trust	48,832,341	44,438,500
Market valuation adjustments	5,406,378	16,517,793
	54,238,719	60,956,293

Group and company	2022 £	2021 £
Investment property:		
At 1 January	-	-
Transfer from PPE to investment property	675,000	-
Revaluation (loss)/gain	113,562	-
As at 31 December	788,562	-

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
SHC Property Investments Limited	100	Other letting and operating of own or leased real estate

The above companies' registered offices are at, The Waterfront, 2nd Floor, West Wing, Salts Mill Road, Shipley, BD17 7EZ.

14 Financial instruments

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Financial assets held at fair value				
Holdings in collective investment schemes	54,238,719	60,956,293	54,238,719	60,956,293
Total investment portfolio held at FV	54,238,719	60,956,293	54,238,719	60,956,293
Financial assets held at amortised cost				
Cash held at credit institutions and in hand	20,152,267	17,983,852	18,981,448	16,934,402
Debtors arising out of direct insurance operations	474,787	456,800	459,247	475,543
Other debtors	752,139	1,214	976,124	160,424
Unlisted investments	2,519	2,519	12,719	12,619
Total financial instrument held at amortised cost	21,381,712	18,444,385	20,429,538	17,582,988
Total financial assets	75,620,431	79,400,678	74,668,257	78,539,281

	2022 £	2021 £	2022 £	2021 £
Financial liabilities held at amortised cost				
Creditors & Accruals	602,216	575,268	515,206	537,842
Total financial liabilities held at amortised cost	602,216	575,268	515,206	537,842
Total financial liabilities	602,216	575,268	515,206	537,842

Financial assets are held at fair value or amortised cost. 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 surplus/deficit on ordinary activities.

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 £20,141,557 (2021: £17,970,215) 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 (2021: £2,519) This is based on cost which is deemed an appropriate approximation of fair value as a Level 3 input.

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

14 Financial instruments (continued)

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 £54,238,719 (2021: £60,956,293) 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.

Under Solvency II, our investments are stressed on interest rate risk, equity risk, currency risk and concentration risk. The capital requirement relating to market risk equates to £21.8m (2021: £30m) and the Board are of the opinion we hold sufficient capital reserves to cover this risk charge as demonstrated by our Solvency II coverage ratio.

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 held with credit institutions (excluding cash in hand) of £20,141,557 (2021: £17,970,215) are held with a number of counterparties and differing terms. The balance identified as less than 1 month includes cash immediately available of £13,095,363 (2021: £10,958,252). 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 of the cash held with credit institutions are:

	2022	2021
Less than or equal to 1 month	£13,930,331	£11,771,240
Greater than 1 but less or equal to 6 months	£4,052,880	£4,047,084
Greater than 6 months	£2,158,346	£2,151,891
	£20,141,557	**£17,970,215**

The Group deems the above as cash and cash equivalents due to the nature of the cash deposits which are repayable on request. If such request was made prior to maturity date, the Group would forgo the interest earned and/or incur a penalty charge. The Group also holds cash in hand of £10,710 (2021: £13,637).

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 £896,630 (2021: £1,770,412), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £1,052,727 (2021: £1,029,409). 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 Group'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 £474,787 (2021: £456,800).

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.

The credit rating for counterparty credit institutions are rated between AA and BBB and are consistent with the Solvency II reporting requirements in calculating the Solvency Capital Requirement.

15 Other Debtors

Due within one year	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Intercompany debtors	-	-	976,124	160,424
Corporation tax debtor	892,454	127,501	892,365	127,501
Other debtors	752,139	1,214	-	-
	1,644,593	128,715	1,868,489	287,925

All intercompany balances are interest free and repayable on demand. The other debtors balance of £752,228 relates to the purchase of The Waterfront property, a deposit of £750,000 was held in a client money account by our solicitors until the parties involved in the transaction were ready to exchange contracts, this exchange occurred after the balance sheet date.

16 Technical Provisions

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Unearned Premiums				
As at 1 January	428,750	451,549	428,750	451,549
Movement in provision	(46,288)	(22,799)	(46,288)	(22,799)
As at 31 December	382,462	428,750	382,462	428,750
Provision for outstanding claims				
As at 1 January	586,674	615,110	586,674	615,110
Movement in provision	70,543	(28,436)	70,543	(28,436)
As at 31 December	657,217	586,674	657,217	586,674
Provision for outstanding claims handling expenses				
As at 1 January	13,985	18,505	13,985	18,505
Movement in provision	(937)	(4,520)	(937)	(4,520)
As at 31 December	13,048	13,985	13,048	13,985

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.

Group sensitivity analysis
This sensitivity is considered to be a reasonably possible change in a single key estimate based on past experience for the business. Management consider the change in claim loss ratio to be a key factor:

16 Technical Provisions (continued)

	Surplus/(deficit) before tax		Reserves	
	2022	**2021**	**2022**	**2021**
	£	**£**	**£**	**£**
Before sensitivities	(2,018,953)	8,440,244	76,321,125	77,645,050
After applying claims sensitivity				
- 5% increase in claims loss ratio	(48,566)	(45,323)	76,272,559	77,599,727
- 5% decrease in claims loss ratio	48,566	45,322	76,369,691	77,690,372

17 Creditors

Due within one year	**Group 2022 £**	**Group 2021 £**	**Company 2022 £**	**Company 2021 £**
Corporation tax	-	890,504	-	879,018
Taxation and social security	294,414	304,639	294,414	304,639
Trade creditors	162,134	122,058	100,577	81,827
	456,548	1,317,201	394,991	1,265,484

18 Other provisions

Group and company	**2022 £**	**2021 £**
Provision for FSCS compensation levy		
Balance as at 1 January	101,869	106,284
Change in provision	(1,632)	(4,415)
Balance as at 31 December	100,237	101,869

	2022 £	**2021 £**
Provision for deferred tax		
Balance as at 1 January	-	-
Change in provision (see note 10)	197,426	-
Balance as at 31 December	197,426	-
Total other provisions	297,663	101,869

The deferred tax liability relates to accelerated capital allowances on fixed assets purchased and the revaluation gain on the investment property.

19 Retirement benefit schemes - Defined contribution schemes

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

The charge through the surplus/deficit on ordinary activities in respect of defined contribution schemes was £113,497 (2021 - £104,784).

20 Retained earnings

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
At beginning of year	77,645,050	70,444,490	76,825,448	69,672,845
(Deficit)/surplus on income and expenditure	(1,323,925)	7,200,560	(1,376,708)	7,152,603
At end of year	76,321,125	77,645,050	75,448,740	76,825,448

21 Operating lease commitments

Lessee

Operating lease payments represent rentals payable by the group for office space, 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:

	2022 £	2021 £
Within one year	142,701	22,546
Between two and five years	546,499	47,454
	689,200	70,000

22 Capital commitments

The group had no contractual commitments as at 31 December 2022 (2021: None).

23 Subsequent events

SHC Property Investments Limited, is a wholly owned subsidiary of Sovereign Health Care. The subsidiary concluded the acquisition of a freehold property named The Waterfront on 8 February 2023, paying £7.5m (excluding VAT) in cash to purchase the property part occupied by Sovereign Health Care and part occupied by third parties.

The investment property, Royal Standard House, was actively marketed for sale and an offered accepted on the property on 20 January 2023. Solicitors have been assigned and the legal proceedings are ongoing, the group intend to complete on the sale in the first half of 2023. Please refer to note 2 and note 13.

Having assessed these post balance sheet events, the Director's view is the Group will continue as a going concern.

There have been no further subsequent events since the balance sheet date.