SOVEREIGN HEALTH CARE

(AN INCORPORATED COMPANY LIMITED BY GUARANTEE)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

Company Registration No. 00085588 (England and Wales)

Established 1873

DIRECTORS AND ADVISERS

Directors	R. J. H Craven S. R. Davies, Senior Independent Director Dr. A. D. G. Dawson J. C. Fortune, Chair K. Hinds, Vice Chair N. A. M. McCallum (Appointed 1 December 2023) R. S. Piper (Retired 31 March 2024) S. M. Sedgwick N. J. Stewart
Secretary	N. J. Stewart
Chief Executive	N. A. M. McCallum
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	S. W. Dixon - Steve Dixon Associates LLP

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CHAIR'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

2023 was a momentous year as we marked our 150th Anniversary. Sovereign Health Care was founded in 1873 as the Hospital Fund of Bradford with the express purpose of raising much needed funds for local Hospitals. That purpose has continued to drive the business through the many years and many changes since 1873 and was honoured in 2023 as we donated just under £1m to local NHS Trusts and a total of £1.5m to health related causes across our region £10,000 for every year of our history. Our anniversary year culminated with a gala celebration in St George’s Hall Bradford on October 12th where we looked back on our many achievements with friends, colleagues, supporters, and many of our charity partners.

We entered 2023 knowing our long-serving CEO Russ Piper would be moving toward retirement and therefore the Board were delighted to appoint Neil McCallum in September of 2023. Neil and Russ have been able to work closely together for a period to ensure a seamless transfer to Neil as our new CEO. The Board welcome Neil and look forward to working with him to shape the future direction of the business and also thank Russ for his dedication to Sovereign Health Care and the outstanding stewardship of the business since 2009. Russ has played an important part in the 150 year history of Sovereign Health Care. His fingerprints can be seen in how we honour our commitment to healthcare across Bradford and West Yorkshire, in how we serve our customers on a daily basis, in the strong reputation of the business amongst stakeholders in our region, and indelibly, in our new office in Shipley. Russ can be enormously proud of his achievements and the legacy he leaves, and we wish him all the very best for a long and happy retirement with his wife Ruth and the wider Piper family.

For the business, 2023 has seen our largest ever level of payments to policyholders who benefited from over £7.7m in our support. This reflects the way in which our customers have placed an increased priority on their health in the post pandemic environment and also the inflationary environment in which we operate as we have seen claims increase year on year in both volume and value by 6% and 13%, respectively. Although we entered 2023 anticipating a rise in claims, the rise we have seen has been above expectations and we are proud to have been able to pay claims to our customers efficiently by paying claims on average within 3.5 days, both through our operational team in Shipley and via our online claims portal which now processes over 50% of all claims.

The external environment continues to look difficult with inflation remaining high and the NHS continues to face challenges. As a result we believe our claims will remain at inflated levels during 2024, and indeed these higher levels may become the norm. As such, we began implementing a range of changes to the price and benefits of our plans during 2023 and this work continues into the first half of 2024. While this work has seen prices increase, where possible we have also used this as an opportunity to add value and our products all now provide cover for earwax removal as well as embedding access to our 24/7 GP as a contractual benefit of cover.

Our healthy reserves continue to provide the business stability in the face of the changes we are seeing in claims behaviour. Our investments performed well during a year with an unrealised gain of £0.5m. Our portfolio has shifted subtly during the year toward a higher level of fixed income funds alongside our diversified equity funds. Our investment funds generated £1.9m of the £2.8m being transferred from the non-technical account to the technical account. It should also be noted that our investment portfolio now includes The Waterfront Building in Shipley which along with housing our own Head Office also provides office space which is rented to commercial tenants generating £0.5m in rental income per annum.

With a new CEO joining the business, the time is right to consider how the business wants to change and grow in the coming years. Our strong reserve position will allow us to look ahead with confidence and investigate a wide range of options including further diversification alongside growth of our core business through organic and inorganic means. It is a key objective of the business during 2024 to develop a clear growth strategy to take us forward to the end of the decade.

Our community programme continues to be at the heart of our business, and this will continue to be the case as our growth strategy develops and possibly changes some of the ways in which our technical business operates. In 2023 we were able to gift a total of £1.5m. The range of good causes this money has supported is incredible and we are proud of the good work we have been able to support both at a community level and within the NHS which received the bulk of our gifted money. We look ahead with excitement to 2025 where we are a major supporter of Bradford City of Culture which again reflects our continued commitment to the city which has been our home for 150 years.

As a Board, we remain committed to being custodians of the business with a responsibility to continually improve and enhance what we do serving our customers with care and integrity. 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.

Ian Fortune

J. C. Fortune - Chair
Director
19 April 2024

SOVEREIGN HEALTH CARE

CHIEF EXECUTIVE'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

I was honoured to join Sovereign Health Care as CEO in September of 2023. Russ Piper has led the business successfully for 15 years and retires in 2024 leaving behind a business in excellent shape to grow in the years ahead. I am incredibly excited to be at the helm to help shape and drive our growth agenda. I wholeheartedly repeat Chair Jan Fortunes best wishes to Russ as he moves into his well-deserved retirement.

2023 had three critical focus areas. Celebrating the 150th Anniversary of Sovereign Health Care, appointing a new CEO, and reviewing, repricing, and adding value to our products. All these key objectives for the year have been achieved. The work done on our products has been significant and the focus and dedication of everyone in the business has been impressive and should rightly be congratulated here. This work has been done with a very clear sense of our consumer duty, where possible we have improved services, we have reviewed all our product literature to enhance clarity and simplicity, we have withdrawn products where we no longer think these provide value, and we have shifted our pricing to better reflect usage across our product range. While we ended 2023 with a CLR of 78%, the work done is anticipated to return our products to profitability over three-year business plan.

Operationally the business performed well during the year. While we paid out the highest volume of claims in our history this was achieved while maintaining excellent service levels. We achieved full year service level performance by processing 86% of paid claims, over 141,00 claims in terms of volume, within 3 workings days or less from the date we received the claim.

Our regulatory focus continues, and the business is very aware of the continued and ongoing focus from the FCA on delivering good outcomes for consumers. This is reflected in the noted service level performance, but also in the work being done to embed the consumer duty within the business and deliver service improvements where we have identified gaps. In some areas, such as vulnerable customers, this continues to be a challenge as we are looking at how and where to implement system changes and what actions we can take off the back of these changes to support our customers. However, as a not-for-profit, customer focused business we clearly and proudly work to support our customers each and every day and therefore the changes we are implementing reflect our ongoing commitment to enhancing our excellent services.

We enter 2024 with a stable operating platform, fully reviewed and refreshed products, and a healthy reserve position. This gives us the opportunity to focus on where we want the business to be in the future and this is reflected in my key objective for 2024, by the end of the year we will have defined a growth strategy for 2025-30. This objective will see us review product development, systems and infrastructure, governance, culture, customer service, and our community programme during the course of the year.

I am genuinely thankful to our Board for the support they are providing me as I join the business and I look forward to working with them, colleagues, partners, stakeholders and our customers as we develop and grow Sovereign Health Care.

A huge thank you to my colleagues and staff for their efforts in 2023!

N. A. M. McCallum – Chief Executive Director
19 April 2024

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 aim 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 good value for money products 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.

Our belief remains 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 viewpoint. 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 subject to having sufficient capital funds available, the company will aim to give the equivalent of between 5% and 10% of annual turnover, based on premium income, each year in charitable donations to communities or charitable initiatives with a health and wellbeing focus. We recognise in some circumstances the donations may fall outside the stated threshold of 5% and 10% of annual turnover.

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 have no impact on premiums, meaning each customer pays the same premium, dependent on product selection and level of cover. 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:

	2023	2022
	£	£
Premium income	9,983,726	9,982,568
Other technical income	60,973	81,293
Claims incurred	(7,975,943)	(7,071,031)
Operating expenses	(3,903,503)	(3,292,454)
Net result	(1,834,747)	(299,624)
Investment (loss)/gain - net of income	4,520,779	(1,145,485)
Charitable donations	(1,513,388)	(482,035)
Other charges	(69,143)	(91,809)
Taxation	822	695,028
Retained result for the year	1,104,323	(1,323,925)
Retained reserves at 31 December	77,425,448	76,321,125

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)

Despite the challenging backdrop of the continuing economic uncertainty and the cost-of-living crisis, we achieved a great deal in 2023, with the following highlights:

- Record year for customer claims, paying over £7.7m to our customers
- Diversified our investment portfolio by purchasing a commercial office building, The Waterfront
- Matched our record high in new business sales volume
- Best ever year in terms of new business sales premiums
- Successful recruitment of new Chief Executive Officer
- Implementation of the Consumer Duty
- 150 years of supporting health and wellbeing

During the pandemic our product and pricing strategy review was paused however with the introduction of the regulatory initiative on Consumer Duty, we recommenced this work in 2023 ensuring we balanced good value customer products with a sustainable business model. The Consumer Duty and product reviews was an integral piece of work given the inflationary environment and this work continues into 2024.

In 2023 we handled just under 190,000 claims, paying over £7.7m (2022: £6.9m) to our customers whilst processing these claims on average 3.5 days after the date we received them. Claims volumes increased 6% on prior year whilst the total claims paid increased by 13%, the uplifts in both claims frequency and claims value further reinforced the decision to resume the product and pricing review. We are proud to report from our 2023 customer survey, 94% of our customers would recommend Sovereign Health Care to family and friends, nevertheless, we continue to invest in our customer service and customer journey, and in 2024 we will focus on reviewing our quality of service, digital servicing capability and product offerings whilst striving to achieve operational effectiveness.

Whilst we reorganised our Sales function in 2021, it is great to report our sales volumes in 2023 matched our best ever year back in 2019, this was achieved with a smaller field sales team. Our sales volumes achieved 112% of our business plan and average annualised premium equivalent on new business sales also topped our best result in 2019. Whilst our member base shrunk by 1%, this was in line with our financial plan considering the planned activity on the product and pricing strategy. Over the next 3-5 years we will be focused on a growth strategy whilst maintaining a profitable insurance business.

Our investment portfolio, made up of collective funds and property, ended the year at £63,970,151 (2022: £55,027,281), coupled with cash equivalents and short term deposits of £12,225,522 (2022: £20,152,267) contributes to our sustained extremely strong capital position. Dividend income received of £1,932,956 (2022: £1,654,580) was 17% higher than last year. The successful purchase of The Waterfront during the year also generated £501,525 of rental income. The Board agrees 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.

Finally, 2023 marked 150 years of Sovereign Health Care, from our roots in 1873 as the Hospital Fund of Bradford, supporting hospitals and health in our local communities. To celebrate this landmark occasion, the Board agreed to donating more than the usual equivalent of between 5% and 10% of annual turnover. We gave back to charities more than ever, donating £1,513,388 (2022: £482,035) to local charities and causes supporting health and wellbeing, including £970,000 to the NHS across Yorkshire. This means over the past 17 years we have donated over £11.7m to charities, including over £3.3m to Yorkshire NHS Trusts.

Key performance indicators (KPI)

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

	2023	**2022**
Earned premium increase/(reduction)	£1,158	£(227,117)
Underwriting results (technical income less claims)	£2,068,756	£2,992,830
Operational expenses relative to earned premium	39%	33%
Surplus/(deficit) on ordinary activities after taxation	£1,104,323	£(1,323,925)
% of claims paid relative to earned premiums	78%	69%
Solvency II ratio (unaudited)	286%	326%

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 increased marginally by £1,158, however our member base shrunk in the year. Net earned premiums of £9,983,726 (2022: £9,982,568) bettered our financial plan, and although member numbers decreased, it was apparent customers sought out higher levels of cover as the annualised premium equivalent for new business sales increased compared to prior year. Overall, sales activity surpassed our target but unfortunately did not exceed the number of customers that had lapsed.

Underwriting Results

Underwriting results decreased by £854k as a direct result of an increase in claims frequency and higher costs of healthcare across many of the benefits. As noted in the business performance, our pricing strategy was reviewed in 2023 to ensure fair value to our customers, this meant moving away from historic unitised linear pricing to pricing based on risk and claims experience, but still on a community basis.

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 38%, slightly above target. This is an increase compared to 2022, however this was anticipated as costs have increased as the economy felt the inflationary pressures from the cost of living crisis coupled with one-off exceptional items to cover costs for project works. Focus throughout 2024 will be to gain operational efficiencies through digital transformation, process improvement and scaling up the business through a growth strategy.

Surplus on ordinary activities after tax

Surplus on ordinary activities after tax for the year was £1.1m compared to prior years deficit of £1.3m. 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. 2023 proved to be a positive year for investors, with most asset classes producing a positive return despite the ongoing conflicts in Ukraine and Gaza and rising interest rates. Investment income includes income from collective investments net of investment management fees, rental income, interest from cash and timed deposits, plus gains or losses realised on investments. Investment income was more than sufficient to fund our charitable 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 78% which reflects on the inflationary environment. Whilst this is reporting outside of our targeted ratio, the review of the product and pricing strategy will look to correct the position in 2024. Due to the pandemic, we delayed product reviews meaning our last consumer product review took place in 2017, and this was largely Insurance Premium Tax (IPT) related.

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 £49.5m (2022: £52.2m) representing a solvency coverage ratio of 286% (2022: 326%). Capital requirements have increased by £3.6m as a direct result of our market risk exposure. The capital charge relating to market risk equates to £25m (2022: £21.8m). 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.

	2023	**2022**
	£	**£**
Own Funds – Group	76,213,768	75,337,735
Solvency Capital Requirement	(26,689,536)	(23,087,951)
Solvency II Capital Surplus	49,524,232	52,249,784
Solvency Cover Ratio	**286%**	**326%**

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 2024 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.
- Undertake an independent compliance and governance review

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 £25m (2022: £21.8m). The coverage ratio of 286% (2022: 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 Board understands the investment market remains volatile throughout periods of uncertainty and remains in regular contact with our Investment Advisors. 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 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 periodically 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 2023, attendance at all board meetings and sub groups was 88% (2022: 91%).

A formal review of Board effectiveness takes place with every change of Chair (normally 3 year cycles) however the Chair will informally evaluate Board performance through a series of meetings with other non-executive directors and the Chief Executive on an ongoing basis. Sovereign Health Care have elected to appoint a Senior Independent Director, who will assess the Board effectiveness on a periodic 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 23 to 24.

It is proposed that the surplus of £1,104,323 transferred from the group's reserves, giving a retained reserve of £77,425,448.

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

Investment property valuation is explained in notes 12 and 13 to the financial statements.

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 relaunch of our purpose and values is expected to take place in 2024.

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 amended the Articles of Association in 2019 to reflect newly appointed NEDs would initially service a 9 year maximum term, ensuring independent challenge and effective governance. Appointments of NEDs with over 9 years services, can be considered for reelection annually thereafter. All active serving NEDs have less than 9 years' service and are therefore deemed independent.

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 experience in accountancy, audit, business strategy, charities and health, as well as the requisite experience of financial services and the insurance industry. All Board members are considered for reappointment every three years.

The Senior Independent Director, reviews Board effectiveness periodically 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)

- **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.

- **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.

Periodically, external consultancy is sought to benchmark pay for both executive and non-executive directors, as well as all job roles within the company. The next benchmarking activity is planned for 2024. 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 programme.

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.

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 the summary below details how the Board engages with these groups in accordance with Section 172(1):

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 and feedback from all business areas.
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 94% of our customers being satisfied with their cash plan and 94% of our customers would recommend Sovereign Health Care to a friend or family member.
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.
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. We are committed to prompt payment terms to ensure fair payment practices.
Communities	Donations of £1.5m 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 £970k to Yorkshire Trusts as part of the ongoing commitment to supporting health services in the region.

On behalf of the Board

J. C. Fortune – Chair
Director
19 April 2024

The directors present their report and financial statements for the year ended 31 December 2023.

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 directors of the Group who held office during the year and up to the date of signature of the financial statements were as follows:

R. J. H Craven
S. R. Davies
A.D.G. Dawson
J. C. Fortune
K. Hinds
N. A. M McCallum (Appointed 1 December 2023)
S. M. Sedgwick
N. J. Stewart

R. S. Piper retired from the Board on 31 March 2024.

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 reviewing our systems and operations to ensure the customer journey delivers good outcomes whilst improving operational efficiencies, reviewing our product range to ensure we optimise customer fair value, exploring external opportunities for growth whilst ensuring we maintain a sustainable business model.

Political and charitable contributions

The group does not make any political contributions. During the year the company made charitable contributions of £1,513,388 (2022: £482,035).

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 45 (2022: 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	**2023 (CO2e)**	**2022 (CO2e)**
Scope 1 – emissions from combustible gas	0.0	5.9
Scope 2 – emissions from purchased electricity	13.9	14.7
Scope 3 – emissions from operations	57.5	49.2
Total	**71.4**	**69.8**
Intensity Ratio – per employee	**1.6**	**1.7**

Emissions and energy consumption (continued)

The scope 1 and 2 emissions are calculated using our annual consumption of energy, taken directly from electricity statements, totalling 59,586 kWh (2022: 94,669). 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 1 and 2 emissions have decreased, however the increase in in-work travel has impacted scope 3 emissions, nevertheless when coupled with the increase in employees our intensity ratio per employee has reduced to 1.6 (2022: 1.7).

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 £57.5m, 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 MSCI 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, 2% of the underlying companies held by each fund, are rated B or below, using the MSCI ESG data. 58% 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, and regulation risk. 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
19 April 2024

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 Company's affairs as at 31 December 2023 and of the Group's and Company's surplus for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Sovereign Health Care ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2023 which comprise the Consolidated Statement of Comprehensive Income (Technical and Non-Technical), the Consolidated And Company Statement Of Changes In Equity, the Consolidated And Company Statement Of Financial Position, the Consolidated Cash Flow Statement 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 and Governance Committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors in 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 reappointments is 5 years, covering the years ending 31 December 2018 to 31 December 2022.

We remain independent of the Group and the 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 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.

Conclusions relating to going concern (continued)

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
- Challenge and discussion around the latest Own Risk and Solvency Assessment provided by the Group and Company. In addition, we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged the future assumptions embedded within the model for reasonableness. We have also checked that the modelling used for solvency is in line with industry standards.

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 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% (2022: 100%) of Group loss before tax** **100% (2022: 100%) of Group revenue** **100% (2022: 100%) of Group total assets**
Key audit matters	see table below
Materiality	**Group financial statements as a whole** £1,565,000, (2022 - £1,526,000) based on 2% of net assets (2022: 2% of net assets)

	2023	2022
Insurance Provisions (IBNR)	✓	✓
Valuation of Freehold Land and Buildings	✓	×

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 Company and three subsidiaries (2022 – two subsidiaries) including one incorporated in 2023. Only the Parent undertaking is considered to be a significant component, however full scope audits were performed on the Parent and the three 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Key audit matter	How the scope of our audit addressed the key audit matter
Insurance provisions (claims incurred but not reported ("IBNR") – 2023: £709,554 (2022: £657,217)	
Refer to the accounting policy in note 1.4 and 2 further information given in note 16. Insurance provisions includes liabilities for claims outstanding as at 31 December 2023. The process of recognising such claim 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 claims outstanding 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 ensure that methodology adopted is in accordance with accounting standards. We tested the arithmetical accuracy of claims outstanding. We checked the key inputs into the model by agreeing the amount of historic claims payments with actual claims paid monthly report. We also 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 post year end claims payments 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. We have assessed the impact of inflation and the cost-of-living crisis on the claims outstanding calculation to ensure all factors are considered in the calculation. 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. *Key Observations:* Based on the work performed we consider the judgements and estimated made by management to be appropriate.
Valuation and Classification of Investment Property – 2023: £6,513,664 (2022: £788,562)	
Refer to the accounting policy in note 1.9 and further information given in note 2 and 13. The Group has a mixed-use property whereby a portion is used by the Group and a portion is leased out separately under operating lease. As such the property was apportioned between Investment Property and Property, Plant and Equipment (PPE). The Investment Property component is held using the fair value model, which represents the estimated market value of the component. Determining the investment property component and its fair value requires significant judgements and estimates to be made by management in relation to the apportionment of the property between investment property and PPE; and the inputs in the fair value calculation which includes yield rates and comparative market rates and involved the use of an external valuer. As such we identified a risk of material misstatement in the valuation and classification of the property and therefore considered it to be a Key audit matter.	We obtained a detailed understanding of the process adopted by management and checked if the key assumptions used in the valuation methodology is in accordance with the applicable accounting standards. We evaluated the independence, competence, capability, and objectivity of management's expert. We obtained and reviewed the most recent valuation reports provided by managements expert, and with the assistance from our internal Valuations experts, we assessed the appropriateness of the methodology and assumptions used. We assessed the appropriateness of the key inputs used in the valuation provided by management's expert, such as market rate rent and rental yields with reference to publicly available data. We reviewed the floor space of the own use portion in the valuation report prepared by management experts and checked if the apportionment between Investment Property and PPE is accurate. We also physically verified the floor space during our site visit. Key Observations: Based on the work performed, we consider the judgements and estimates made by management in determining the investment property component and its value 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	
	2023 (£'000)	2022 (£'000)	2023 (£'000)	2022 (£'000)
Materiality	1,565	1,526	1,538	1,509
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 were considered the most appropriate metric given the nature of the business.			
Performance materiality	1,017	991	999	980
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, could influence the economic decisions of users. As a result, we determined specific materiality for the Group and the Company for these items to be £148,000 (2022: £138,000) based on 1.3% of gross written premiums for the year ended 31 December 2023. (2022: 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 £46,950 (2022: £45,780) for the group and £46,140 (2022: £45,270) for the 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, 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.

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 the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

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

Responsibilities of Directors

As explained more 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 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 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:

Non-compliance with laws and regulations

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.

Non-compliance with laws and regulations (continued)

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).

Our procedures in respect of the above included:
- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory authorities for any instances of non-compliance with laws and regulations; and
- Review of financial statement disclosures and agreeing to supporting documentation.

Irregularities including 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:

- Enquiry with management, Those Charged with Governance and the Audit and Governance Committee regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's and the company's policies and procedures relating to:
    - Detecting and responding to the risks of fraud; and
    - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, We consider the primary fraud risks to be around the valuation of technical provisions (KAM 1), the valuation and classification of Investment Property (KAM 2), claims payments and management override of controls.We ensured that our audit procedures performed covered these risks.

Our procedures in respect of the above included:
- Testing a sample of journal entries throughout the year, which met a defined-risk criteria, by agreeing to supporting documentation; and
- Assessing significant estimates made by management for bias (refer to the key audit matters section for procedures performed).

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

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 Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Geeta Joshi
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Geeta Joshi (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
22 April 2024

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 2023

	Notes	2023 £	2023 £	2022 £	2022 £
Technical Account - General Business					
Gross premiums written		9,953,503		9,936,280	
Change in gross provisions for unearned premiums	**16**	30,223		46,288	
Net premiums earned	**3**		9,983,726		9,982,568
Other income/commissions received			60,973		81,293
Allocated investment returned transferred from non technical account	**8**		2,802,821		1,761,010
			12,847,520		11,824,871
Claims and claims handling expenses paid		(7,921,233)		(7,001,425)	
Change in the gross provision for claims	**16**	(54,710)		(69,606)	
Claims incurred	**4**		(7,975,943)		(7,071,031)
Net operating expenses	**5**		(3,904,205)		(3,294,086)
Change in other provisions	**17**		702		1,632
			(11,879,446)		(10,363,485)
Balance on the technical account for general business			968,074		1,461,386

The notes on pages 29 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 2023

	Notes	2023 £	2022 £
Non-technical Account			
Balance on the technical account for general business		968,074	1,461,386
Investment income	8	4,624,925	9,852,368
Investment return allocated to technical account	8	(2,802,821)	(1,761,010)
Unrealised (loss)/gain on other investments		512,846	(11,111,415)
Revaluation (loss)/gain on investment property	13	(616,992)	113,562
Other charges	9	(69,143)	(91,809)
Charitable donation		(1,513,388)	(482,035)
(Deficit)/surplus on ordinary activities before taxation		1,103,501	(2,018,953)
Tax on ordinary activities	10	822	695,028
(Deficit)/surplus on ordinary activities after taxation		1,104,323	(1,323,925)

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 29 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 2023

		Total Reserves
Group	**Notes**	**£**
At 1 January 2022		77,645,050
Deficit for the year		(1,323,925)
Balance at 31 December 2022		76,321,125
At 1 January 2023		76,321,125
Surplus for the year	**20**	1,104,323
Balance at 31 December 2023		77,425,448

Company		
At 1 January 2022		76,825,448
Deficit for the year		(1,376,708)
Balance at 31 December 2022		75,448,740
At 1 January 2023		75,448,740
Surplus for the year	**11 & 20**	1,170,195
Balance at 31 December 2023		76,618,935

SOVEREIGN HEALTH CARE

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2023

		Group		Company	
		2023	**2022**	**2023**	**2022**
	Notes	**£**	**£**	**£**	**£**
ASSETS					
Investments					
Investment in subsidiaries	**13**	-	-	10,200	10,200
Investment property	**13**	6,513,664	788,562	-	788,562
Other financial investments	**13**	62,692,289	54,241,238	62,692,289	54,241,238
		69,205,954	55,029,800	62,702,489	55,040,000
Debtors					
Debtors arising out of direct insurance operations		394,000	474,787	644,894	459,247
Other Debtors	**15**	1,149,622	1,644,593	9,435,907	1,868,489
		1,543,622	2,119,380	10,080,801	2,327,736
Other Assets					
Tangible assets	**12**	2,005,468	912,685	919,132	912,685
Cash and cash equivalents		6,992,239	20,152,267	5,022,990	18,981,448
		8,997,707	21,064,952	5,942,122	19,894,133
Prepayments and accrued income		546,060	354,013	539,100	346,881
Total assets		**80,293,342**	**78,568,145**	**79,264,512**	**77,608,750**

SOVEREIGN HEALTH CARE

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

		Group		Company	
		2023	**2022**	**2023**	**2022**
	Notes	**£**	**£**	**£**	**£**
RESERVES AND LIABILITIES					
Technical provisions					
Provision for unearned premiums	**16**	352,238	382,462	352,238	382,462
Provision for claims outstanding	**16**	709,554	657,217	709,554	657,217
Provision for claims handling expenses	**16**	15,421	13,048	15,421	13,048
		1,077,213	1,052,727	1,077,213	1,052,727
Other provisions	**17**	296,139	297,663	296,139	297,663
Creditors					
Other creditors including taxation and social security	**18**	964,768	456,548	798,347	394,991
Accruals and deferred income		529,774	440,082	473,878	414,629
Total liabilities		2,867,894	2,247,020	2,645,577	2,160,010
Net assets		77,425,448	76,321,125	76,618,935	75,448,740
Capital and reserves					
Reserves	**20**	77,425,448	76,321,125	76,618,935	75,448,740
		77,425,448	76,321,125	76,618,935	75,448,740
Total reserves and liabilities		**80,293,342**	**78,568,145**	**79,264,512**	**77,608,750**

The company's surplus for the financial year is £1,170,195 (2022: £1,376,708 deficit) – see note 11.

The notes on pages 29 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 19 April 2024.

Signed on its behalf by

N. A. M. McCallum – Chief Executive
Company Registration No. 00085588

SOVEREIGN HEALTH CARE

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 £	2022 £
Cash flows from operating activities			
Surplus/(deficit) on ordinary activities before taxation		1,103,501	(2,018,953)
Adjustments for:			
Investment income		(2,278,449)	(1,761,010)
Revaluation loss/(gain) on land and buildings	12	74,469	-
Depreciation of tangible fixed assets	12	173,608	34,761
Revaluation loss/(gain) on investment property	13	616,992	(113,562)
Loss/(gain) on sale of investments		(2,128,078)	(8,404,416)
Unrealised loss/(gain) on other investments		(512,846)	11,111,415
(Increase)/decrease in debtors, prepayments and accrued income		477,437	(13,368)
Increase/(decrease) in creditors, provisions, accruals and deferred income		621,696	(8,705)
Cash from operations		(1,851,670)	(1,173,838)
Income taxes paid		-	(762,915)
Net cash from operating activities		(1,851,670)	(1,936,753)
Cash flows from investing activities			
Dividend and Interest received		2,184,724	1,754,094
Purchase of fixed assets		(1,340,860)	(909,524)
Purchase of other investments		(13,434,674)	(23,212,549)
Purchase of investment property		(7,130,656)	(750,000)
Proceeds on disposal of investment property		790,062	-
Proceeds on disposal of other investments		7,623,046	22,030,872
Net cash from investing activities		(11,308,358)	(1,087,107)
Net increase/(decrease) in cash and cash equivalents		(13,160,028)	(3,023,860)
Cash and cash equivalents at beginning of year		20,152,267	17,983,852
Cash and cash equivalents at end of year		6,992,239	20,152,267

	2023 £	2022 £
Cash and cash equivalents comprise:		
Available in less than 3 months	6,974,710	13,930,331
Greater than 3 months – less than 6 months	-	4,052,880
Greater than 6 months	-	2,158,346
Cash in hand	17,529	10,710
Total	6,992,239	20,152,267

On deposits held with credit institutions greater than three months, restrictions apply on renewal for the 2023 deposits whereby these balances cannot be withdrawn within three months of the statement of financial position date. Therefore, these are not considered to be cash and cash equivalents – refer to notes 13 and 14.

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 2023. 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 2024 to 2026, 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:

Tenant additions	10% p.a. straight line
Buildings (excluding land – not depreciated)	2% p.a. straight line (over 50 years)
Computer equipment	25% p.a. straight line
Office furniture and equipment	20% p.a. straight line
Motor vehicles	25% p.a. straight line

Land and buildings are revalued annually by a qualified valuer and are held under the revaluation model and are carried at their fair value at the date of valuation. Depreciation is provided to write down the property, excluding land, to its residual value over its estimated useful economic life. Revaluation losses are recognised in revenue where there is no previous gain recognised in the revaluation reserve. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, the increase is recognised in the revenue reserve to the extent that it reverses a revaluation decrease previously charged to revenue.

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.

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.

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.

Deposits with credit institutions are classified under financial investments which are not repayable without notice and/or has an original maturity date or notice period of three months or more from the statement of financial position date.

Investments in subsidiaries are measured at cost less impairment in the accounts of the parent company.

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

1.9 Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are measured at cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal fees, taxes and other transaction costs. Investment properties are held at fair value, at the date of valuation. Subsequently investment properties are held at fair value with any gains or losses arising from changes in the fair value being recognised in the surplus/deficit on ordinary activities in the period that they arise. No depreciation is provided in respect of investment properties. A full valuation is obtained annually from a qualified valuer for each property.

At group level, where part of the property is rented to the parent company, will be classified as mixed us properties. The part which is mixed use will be classified as land and buildings under tangible fixed assets – see note 1.7.

1.10 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 Accounting policies (continued)

1.11 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 or notice periods of three months or less. Bank overdrafts are shown within borrowings in current liabilities.

1.12 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)

1.13 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.

1.14 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.

1.15 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)

1.16 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.

1.17 Retirement benefits

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

1.18 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 £709,554 (2022: £657,217) 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

The fair value, £6,513,664 (2022: £788,562) of the investment property has been derived from a valuation carried out on 11 January 2024 for the financial reporting period ending 31 December 2023. The investment property valuation was made on an open market value basis with reference to comparable transactional market evidence, based on estimated of future rentals receivable for comparable properties in nearby locations. Refer to note 12 and 13 of the financial statements.

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.

	2023	2022
	£	£
Gross premiums written	11,151,345	11,134,188
less: Insurance premium tax	(1,197,842)	(1,197,908)
Change in gross provisions for unearned premiums	30,223	46,288
Net premiums earned	9,983,726	9,982,568

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 23 and 24.

4 Claims incurred

	2023	2022
	£	£
Claims paid	7,744,684	6,855,076
Claims handling expenses paid	176,549	146,349
Change in provision for outstanding claims	52,337	70,543
Change in provision for claims handling expenses	2,373	(937)
	7,975,943	7,071,031

5 Net operating expenses

	2023	2022
	£	£
Acquisition costs	1,199,371	1,003,825
Administration	2,704,834	2,290,261
	3,904,205	3,294,086

Operating profit is stated after charging:		
Revaluation of land and buildings	74,469	-
Depreciation of tangible assets	173,608	34,761
Plant and machinery operating lease costs	22,791	27,401

Auditors' remuneration (exclusive of VAT)

	2023	2022
	£	£
Fees payable to the group's auditor for the audit of the company's annual accounts	103,580	97,300
Fees payable to the group's auditor for the audit of the subsidiary companies annual accounts	36,420	11,500
	140,000	108,800

6 Employees

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

	2023 Number	2022 Number
Sales and Marketing	17	15
Customer services	7	6
Claims	9	9
Charity	1	1
Business Services	5	5
Administration and finance	6	5
	45	41

Their aggregate remuneration comprised:

	2023 £	2022 £
Wages and Salaries	1,887,497	1,693,046
Social security costs	185,842	170,307
Other pensions costs	131,570	112,640
Personal accident and health insurance	33,983	34,040
	2,238,892	2,010,033

7 Directors' remuneration

	2023 £	2022 £
Remuneration for qualifying services	446,089	437,765
Company pension contributions to defined contribution schemes	29,016	24,773
	475,105	462,538

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

	2023 £	2022 £
Remuneration for qualifying services	191,741	191,111
Contribution to defined contribution pension	15,609	15,154

8 Investment Income

	2023 £	2022 £
Income from listed investments	1,932,956	1,654,580
Rental income from investment property	524,372	-
Bank and other interest	345,493	106,430
Allocated investment return allocated to technical account	2,802,821	1,761,010
Investment Management fees	(305,974)	(313,058)
Realised gains on investments	2,128,078	8,404,416
	4,624,925	9,852,368

9 Other charges

	2023 £	2022 £
Community programme costs	17,592	15,873
Professional fees	51,551	75,936
	69,143	91,809

10 Taxation

	2023 £	2022 £
Current tax		
UK corporation tax on (deficit)/surplus for current period	-	(892,365)
Adjustments in respect of prior period	-	(89)
Total current tax	-	(892,454)
Deferred tax		
Origination and reversal of timing differences	7,568	189,035
Reversal for investment property disposal	(8,391)	8,391
Total deferred tax	(822)	197,426
Total tax	(822)	(695,028)

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

	2023 £	2022 £
(Deficit)/surplus before taxation on continued operations	1,103,501	(2,018,953)
(Deficit)/surplus on ordinary activities before taxation multiplied by standard rate of corporation tax of 23.52%(2022 - 19.00%)	259,543	(383,601)
Effects of:		
Disallowable expenses/income	417	584
Revaluation of investment property	162,632	(21,577)
Depreciation add back	40,836	6,603
Capital allowances	(43,453)	(179,938)
Dividends and distributions received	(454,631)	(314,437)
Impact of deferred tax	(822)	197,426
Adjustments in respect of prior period	-	(89)
Losses brought forward	34,657	-
Total current tax	(260,366)	(311,427)
Total tax	(822)	(695,028)

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 2023 are measured at 25% (2022: 25%). The group has trading losses of £147,352 (2022: £nil) available for carry forward against future trading profits. Deferred tax assets have not been recognised in respect of these losses as it not reasonable probable to estimate future taxable profits will be available in the next accounting period. Deferred tax assets have not be recognised in respect of the revaluation loss on The Waterfront to the extent it is not reasonably probable it can be recovered and it is an investment property not intended for sale, therefore the recovery of this cannot be estimated.

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:

	2023 £	2022 £
Holding company's surplus/(deficit) for the financial year	1,170,195	(1,376,708)

12 Tangible Fixed Assets

Group	Freehold land and buildings £	Tenant additions £	Computer equipment £	Office furniture and equipment £	Total £
Cost					
At 1 January 2023	-	569,756	165,564	320,271	1,055,591
Additions	-	-	177,535	2,520	180,056
Transfer from investment property (note 13)	1,160,805	-	-	-	1,160,805
Revaluation gain/(loss)	(74,469)	-	-	-	(74,469)
At 31 December 2023	1,086,336	569,756	343,099	322,791	2,321,982
Depreciation					
At 1 January 2023	-	53,751	7,782	81,373	142,906
On disposal	-	-	-	-	-
Charge for the year	17,921	53,900	65,073	54,635	191,529
Depreciation charge reversal on revaluation	(17,921)	-	-	-	(17,921)
At 31 December 2023	-	107,651	72,855	136,008	316,514
Net book value					
At 31 December 2023	1,086,336	462,105	270,244	186,783	2,005,468
At 31 December 2022	-	516,005	157,782	238,898	912,685

The Waterfront, the land and buildings of the Group, was professionally valued by Eddisons, Chartered Surveyors, on 11 January 2024 for the financial reporting period ending 31 December 2023. Land and buildings are fair valued and made on an open market value basis with reference to comparable transactional market evidence, based on estimated of future rentals receivable for comparable properties in nearby locations. At group level, where part of the property is rented to the parent company, will be classified as mixed use properties, and held at the revaluation model, with depreciation being charged on the buildings element. The market valuation of The Waterfront was valued at £7.6m, split between land and buildings of £1.1m and investment property of £6.5m (see note 13). The addition of £1.2m during the year relates to the original cost of the space used by the Company for business operations, with the revaluation loss apportioned in line with the floor space used by the Company.

The fair value of land and buildings of £1,086k includes land valued at £172k, which is not deprecated. The historic cost of the freehold land and buildings was £1,143k (2022: £nil).

12 Tangible Fixed Assets (continued)

Company	Freehold land and buildings £	Tenant additions £	Computer equipment £	Office furniture and equipment £	Total £
Cost					
At 1 January 2023	-	569,756	165,564	320,271	1,055,591
Additions	-	-	177,535	2,520	180,055
Reclassification	-	-	-	-	-
Revaluation	-	-	-	-	-
At 31 December 2023	-	569,756	343,099	322,791	1,235,646
Depreciation					
At 1 January 2023	-	53,751	7,782	81,373	142,906
On disposal	-	-	-	-	-
Charge for the year	-	53,900	65,073	54,635	173,608
At 31 December 2023	-	107,651	72,855	136,008	316,514
Net book value					
At 31 December 2023	-	462,105	270,244	186,783	919,132
At 31 December 2022	-	516,005	157,782	238,898	912,685

13 Investments

Investment in subsidiaries	Company Shares in subsidiaries £	Total Shares in subsidiaries £
Cost or valuation		
At 1 January 2023	10,200	10,200
Additions	-	-
	10,200	10,200
Carrying amount		
At 31 December 2023	10,200	10,200
At 31 December 2022	10,200	10,200

Investments in subsidiaries are measured at cost less impairment in the accounts of the parent company.

13 Investments (continued)

The subsidiaries in which the Company holds more than 20% interest are as follows:

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.

Investment property	2023 £	2022 £
Group		
At 1 January	788,562	-
Disposals	(790,062)	-
Gain on disposal	1,500	-
Additions	8,291,461	-
Transfer (to)/from tangible fixed assets (note 12)	(1,160,805)	675,000
Revaluation (loss)/gain	(616,992)	113,562
As at 31 December	6,513,664	788,562

The investment property, The Waterfront, was initially recognised at cost plus any direct transactions relating to the purchase of the property. The Waterfront was professionally valued by Eddisons, Chartered Surveyors, on 11 January 2024 for the financial reporting period ending 31 December 2023. The investment property valuation was made on an open market value basis with reference to comparable transactional market evidence, based on estimated of future rentals receivable for comparable properties in nearby locations.

The investment property, The Waterfront, is owned by SHC Property Investments Limited, a wholly owned subsidiary of the Company. The investment property element was valued at £6.5m and the transfer of £1.2m to land and buildings relates to the floor space used in the Company's business operations. At group level, where part of the property is rented to the parent company, will be classified as mixed use properties, and held at the revaluation model, with depreciation being charged on the buildings element (see note 12).

The £790k relates to the proceeds received for the sale of Royal Standard House, which completed on 1 June 2023. The Group made a gain of £1,500.

Investment property	2023 £	2022 £
Company		
At 1 January	788,562	-
Disposals	(790,062)	-
Gain on disposal	1,500	-
Additions	-	-
Transfer (to)/from tangible fixed assets (note 12)	-	675,000
Revaluation (loss)/gain	-	113,562
As at 31 December	-	788,562

13 Investments (continued)

Group and Company	2023 £	2022 £
Current assets		
Listed on a recognised investment exchange	57,456,487	54,238,719
Deposits with credit institutions	5,233,283	-
Non current assets		
Unlisted shares	2,519	2,519
Total other financial investments	62,692,289	54,241,238

Group and company	2023 £	2022 £
Listed on a recognised investment exchange:		
Cost of share or other variable yield securities and units in unit trust	51,503,702	48,832,341
Market valuation adjustments	5,952,785	5,406,378
At fair value	57,456,487	54,238,719

Deposits with credit institutions, £5,233,283, are all due within 12 months or less of the statement of financial position date.

Group and company	2023 £	2022 £
Cost or valuation		
At 1 January 2023	2,519	2,519
Additions	-	-
	2,519	2,519
Carrying amount		
At 31 December 2023	2,519	2,519
At 31 December 2022	2,519	2,519

14 Financial instruments

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.

Cash equivalents and deposits with credit institutions of £12,207,993 (2022: £20,141,557) are all due within 12 months and the carrying value is deemed a reasonable approximation of fair value as a Level 1 input.

Unlisted investments consist of a small shareholding totalling £2,519 (2022: £2,519) This is based on cost which is deemed an appropriate approximation of fair value as a Level 3 input.

14 Financial instruments (continued)

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Financial assets held at fair value				
Shares, other variable-yield securities and units in unit trusts	57,456,487	54,238,719	57,456,487	54,238,719
Total financial instruments held at FV	57,456,487	54,238,719	57,456,487	54,238,719
Financial assets held at amortised cost				
Cash held at credit institutions and in hand	6,992,239	20,152,267	5,022,990	18,981,448
Deposits with credit institutions	5,233,283	-	5,233,283	-
Debtors arising out of direct insurance operations	394,000	474,787	644,894	459,247
Other debtors	257,257	752,139	8,543,542	976,124
Unlisted investments	2,519	2,519	2,519	2,519
Total financial instrument held at amortised cost	12,879,298	21,381,712	19,447,228	20,419,338
Total financial assets	70,335,785	75,620,431	76,903,715	74,658,057

	2023 £	2022 £	2023 £	2022 £
Financial liabilities held at amortised cost				
Creditors & Accruals	1,173,842	602,216	968,265	515,206
Total financial liabilities held at amortised cost	1,173,842	602,216	968,265	515,206
Total financial liabilities	1,173,842	602,216	968,265	515,206

The significant risks the company is exposed to is market risk, comprising primarily of equity risk and currency risk, liquidity risk and credit risk. The Group's exposure to and management of each is covered in more detail as follows.

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 £57,456,487 (2022: £54,238,719) 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 £25m (2022: £21.8m) 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 of 286% (2022: 326%).

Equity Risk

Equity risk is the financial risk associated with holding equity investments, primary leading to the market price of shares falling. Equity risk and its measurements is prescribed by the Solvency II regulations. The risk allows for an instantaneous fall in the market value of equities of a prescribed amount. The method assumes a split between equities quoted in major liquid market, type 1, which are assumed to have a lower volatility, and equities quotes in other market, type 2. The stresses prescribed are 39% for type 1, and 49% for type 2. The equity risk component of our Solvency Capital Requirement is £19.1m (2022: £18.4m). In performing sensitivity analysis, a 20% fall in the equity market would result in a £10m deficit and equivalent reduction on reserves, our Solvency II coverage ratio would increase to 297% whereas a 20% increase in the equity market would decrease our Solvency II coverage ratio to 277%.

Currency Risk

Currency risk is the risk of an adverse variation in return of cost resulting from changes in foreign exchange rates. The Group is exposed to this through the underlying investment holdings held in foreign currency within the collective investment funds. In performing sensitivity analysis, a 25% depreciation of non-GBP currency assets would result in a £8.5m deficit and equivalent reduction in reserves. A 25% increase in non-GBP currency assets would result in a decrease of our Solvency II coverage ratio from 286% to 276%. This is well within the Group's risk tolerance limit of 200%.

14 Financial instruments (continued)

Liquidity Risk

Debt instruments held with credit institutions, including cash at the bank and short term deposits are managed internally. Balances can be placed on deposit for a maximum period 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 equivalents and deposits held with credit institutions (excluding cash in hand) of £12,207,993 (2022: £20,141,557) are held with a number of counterparties and differing terms. Restrictions exist for deposits with credit institutions, whereby these balances cannot be withdrawn within three months of the statement of financial position date. 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 redemption profile of the cash equivalents and deposits held with credit institutions are:

	2023	2022
Immediately available or less than 3 months	£6,974,710	£13,930,331
Greater than 3 but less or equal to 6 months	£3,033,928	£4,052,880
Greater than 6 months	£2,199,355	£2,158,346
	£12,207,993	**£20,141,557**

The Group also holds cash in hand of £17,529 (2022: £10,710).

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 £1,494,542 (2022: £896,630), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £724,975 (2022: £670,265). 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 £394,000 (2022: £474,787) and other debtors of £257,257 (2022: £752,139). The company is exposed to credit risk through the potential for default on any of the balances due. Debtors arsing out of direct insurance operations are deemed as low risk due to the nature of the monthly renewable cash plan product.

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. Counterparties that hold cash equivalents and deposits have credit ratings between AA and BBB (2022: Rated between AA and BBB) and are consistent with the Solvency II reporting requirements in calculating the Solvency Capital Requirement.

Capital Management (Solvency II)

Capital management focuses on two main elements, ensuring that the company holds sufficient capital to ensure coverage of regulatory capital requirements (Minimum Capital Requirement (MCR) and SCR) over the foreseeable planning horizon (currently a 3 yearly cycle); and optimisation of the quality of capital available. Sovereign Health Care has no shareholders and therefore our capital originates from retained earnings. Own Funds remain a combination the historical retained earnings valued at £76.2m (2022: £75.3m). All of Sovereign Health Care's capital under Solvency II is classed as Tier 1, this highest quality of capital. This is eligible to cover both the SCR of £26.7m (2022: £23.1m) and MCR of £6.7m (2022: £5.8m). Sovereign Health Care maintains capital at a level well in excess of the capital requirements and has complied with all externally regulated capital requirements throughout the year. The Board recognises the importance of maintaining strong capital adequacy to ensure the on-going sustainability of Sovereign Health Care. The Board has agreed to hold a minimum of 200% of its Solvency Capital Requirement, and should any adverse scenario trigger this point, management actions are in place to re-evaluate, assess and consider the investment portfolio to maintain sufficient capital.

15 Other Debtors

Due within one year	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Intercompany debtors	-	-	8,502,599	976,124
Corporation tax debtor	892,365	892,454	892,365	892,365
Other debtors	257,257	752,139	40,943	-
	1,149,622	1,644,593	9,435,907	1,868,489

The increase in intercompany debtors relates to the purchase of The Waterfront. Sovereign Health Care funded the purchase through SHC Property Investments Limited. All intercompany balances are interest free and repayable on demand.

16 Technical Provisions

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Unearned Premiums				
As at 1 January	382,462	428,750	382,462	428,750
Movement in provision	(30,224)	(46,288)	(30,224)	(46,288)
As at 31 December	352,238	382,462	352,238	382,462
Provision for outstanding claims				
As at 1 January	657,217	586,674	657,217	586,674
Movement in provision	52,337	70,543	52,337	70,543
As at 31 December	709,554	657,217	709,554	657,217
Provision for outstanding claims handling expenses				
As at 1 January	13,048	13,985	13,048	13,985
Movement in provision	2,373	(937)	2,373	(937)
As at 31 December	15,421	13,048	15,421	13,048

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 claim's 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	
	2023	2022	2023	2022
	£	£	£	£
Before sensitivities	1,103,501	(2,018,953)	77,425,448	76,321,125
After applying claims sensitivity				
- 5% increase in claims loss ratio	(46,834)	(48,566)	77,378,614	76,272,559
- 5% decrease in claims loss ratio	46,834	48,566	77,472,282	76,369,691

Risk arising from insurance contracts

As a general insurer Sovereign Health Care writes short term monthly renewable contracts. These contracts individually and collectively present a relatively small financial risk when compared to the other key risks. However, as an insurer we do review, calculate and manage our potential insurance exposures and ensure that we hold sufficient cash in a mixture of immediately available and deposits with credit institutions to meet the requirements of 12 months claims as they fall due. The following measures are used to assess underwriting risks; claims modelling and monitoring of claims loss ratios, product performance is monitored against targeted claims ratio and deviations are investigated, claim trends are all monitored for indications that customer behaviours may deviate from the underwriting assumptions and Solvency II capital requirements are assessed to quantify the underwriting risk exposure through a mass accident and pandemic scenario. The principal risk faced by the company is that actual claims and benefit payments exceed the premiums received for the insurance cover. All the Sovereign Health Care cash plan products are monthly renewable policies, required premium increase can be implemented with a short timescale enabling the risk that premiums are insufficient to cover claims and expenses to be controlled.

17 Other provisions

Group and company	2023	2022
	£	£
Provision for FSCS compensation levy		
Balance as at 1 January	100,237	101,869
Change in provision	(702)	(1,632)
Balance as at 31 December	99,535	100,237

	2023	2022
	£	£
Provision for deferred tax		
Balance as at 1 January	197,426	-
Change in provision (see note 10)	(822)	197,426
Balance as at 31 December	196,604	197,426
Total other provisions	296,139	297,663

The FSCS compensation levy is required by the FCA to cover unforeseen circumstances which would results in a position whereby the company would be unable to make to its claimants. The levy is calculated at 1% of turnover and can be requested for up to one year after transactions have taken place.

The deferred tax liability relates to accelerated capital allowances on fixed assets purchased and the disposal of the investment property, Royal Standard House. Deferred tax balances as at 31 December 2023 are measured at 25% (2022: 25%).

18 Creditors

Due within one year	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
Corporation tax	-	-	-	-
Taxation and social security	320,701	294,414	303,960	294,414
Trade creditors	644,067	162,134	494,387	100,577
	964,768	456,548	798,347	394,991

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 £131,570 (2022 - £113,497).

20 Retained earnings

	Group 2023 £	Group 2022 £	Company 2023 £	Company 2022 £
At beginning of year	76,321,125	77,645,050	75,448,740	76,825,448
Surplus/(deficit) on income and expenditure	1,104,323	(1,323,925)	1,170,195	(1,376,708)
At end of year	77,425,448	76,321,125	76,618,935	75,448,740

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:

	2023 £	2022 £
Within one year	123,614	142,701
Between two and five years	454,923	546,499
	578,537	689,200

22 Commitments and contingencies

The group has recorded a commitment of £250,000 of charitable donations as at 31 December 2023 (2022: None). This is an obligation which was agreed by The Board and expected to be paid in 2024.