



SOVEREIGN HEALTH CARE
(AN INCORPORATED COMPANY LIMITED BY GUARANTEE)
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

Company Registration No. 00085588 (England and Wales)

Established 1873

SOVEREIGN HEALTH CARE

DIRECTORS AND ADVISERS

Directors

R. J. H Craven
S. R. Davies (Retiring on 31 March 2025)
Dr. A. D. G. Dawson
J. C. Fortune, Chair (Retiring on 31 March 2025)
D. G. Heffron (Appointed on 1 March 2025)
K. Hinds, Vice Chair
N. A. M. McCallum
P. Oldfield (Appointed on 1 March 2025)
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
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

Handelsbanken plc
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

SOVEREIGN HEALTH CARE

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SOVEREIGN HEALTH CARE

CHAIR'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2024

As the business closes 2024 we also bring to a close my time on the Board, and as Chair of Sovereign Health Care. It is therefore a time of reflection on the good work of the past year, the achievements of prior years, and a look to the future as the baton passes inevitably forwards.

In my time at Sovereign Health Care, I am enormously proud that we have donated over £6.5m to health and wellbeing causes in Bradford and West Yorkshire. This financial support and commitment to our community is embedded in the DNA of the business. It is work which is supported by a balance sheet that has grown significantly over my period as Chair. I am delighted to step down from a business with total assets now well over £82m over 34% up on when I joined the Board in 2016.

I also reflect with pride on the enormous work which went into keeping the business running during the difficult Covid years, the work we have done to demonstrate high standards and regulatory compliance, and the support from the Board to move the business to our new home in Shipley and diversify the group balance sheet to include a significant property business. With Neil McCallum taking over as Chief Executive in early 2024 we have brought fresh ideas into the business and a fresh approach to meeting the health care needs of our customers. As I stand down, I must also acknowledge Rhys Davies who will also stand down from the Board following his years of service to Sovereign Health Care. Rhys' support to me and his contribution to the wider Board, the Executive, and the business has been exemplary and he can be very proud of his time at Sovereign Health Care as I am proud of my own.

Following the theme of 2023, 2024 has once again seen our largest ever level of payments to policyholders who benefited from a record £8.2m in our support. This continues to reflect the importance our customers place on their health and the trust they place in us to support them. I am delighted we continued to provide such high standards of service to our customers, processing claims in an average of 2.5 days. This commitment has been reflected in over 2,000 individual customer reviews since we joined the Trustpilot platform in early 2024 and an 'Excellent' rating of 4.8 out of 5.

The claims payments also reflect changes we made to our policies and pricing processes in the early part of 2024 which contributed to an increase in premium income to just under £11m and an improvement in the performance of our technical business. We anticipate this improvement continuing through 2025 and although we forecast a technical loss for 2025 we have plans in place to further improve performance and this will continue to be a focus area for the Board and Executive.

Our continued improvement will be anchored in the purpose and values of the business which we took time to reset in 2024. Alongside this we also continued to meet regulatory compliance including conducting product reviews and delivering our first full year report on Consumer Duty. 2024 also saw a record year for the business in sales performance which was aided by work we undertook in partnership with another not-for-profit business. Working collaboratively across the sector will continue to be an important part of our future strategy and we support work being done by the Association of Financial Mutuals (AFM) to enhance collaboration in the sector and will seek, whenever possible, to play our part.

The commitment of the business to improving services has been impressive as reflected in our Trustpilot rating and the customer feedback surveys we conduct internally. We have seen notable improvements in digital customer services including better digital communication to customers claiming online and a significant enhancement to the number of customers who can now claim online. We have undertaken customer research to improve our existing products and help design products which we believe will meet the needs of customers into the future. Supporting this future focus we have also spent time designing the IT architecture our future business will need. I fully support the work being undertaken in this area and will watch with interest to see how Sovereign Health Care develops.

Our community programme remains at the heart of our business. In 2024 we were able to gift a total of £476,045 to health and wellbeing causes. We are proud of the good work we have been able to support both at a community level and within the NHS. We also continue to be a committed supporter of Bradford City of Culture and look forward to the year ahead and also a lasting legacy for the city beyond 2025.

As a Board, we remain committed to being custodians of the business with a responsibility to improve and enhance what we do serving our customers with care and integrity. As I sign off, 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. I also wish the very best to the new Non-Executive Directors joining the business in 2025 and the incoming Chair. I implore you all to be true to our values, 'above all we are customer focused', and as we have demonstrated this year and across my tenure 'we are always improving'.



J. C. Fortune - Chair
Director
31 March 2025

SOVEREIGN HEALTH CARE

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2024

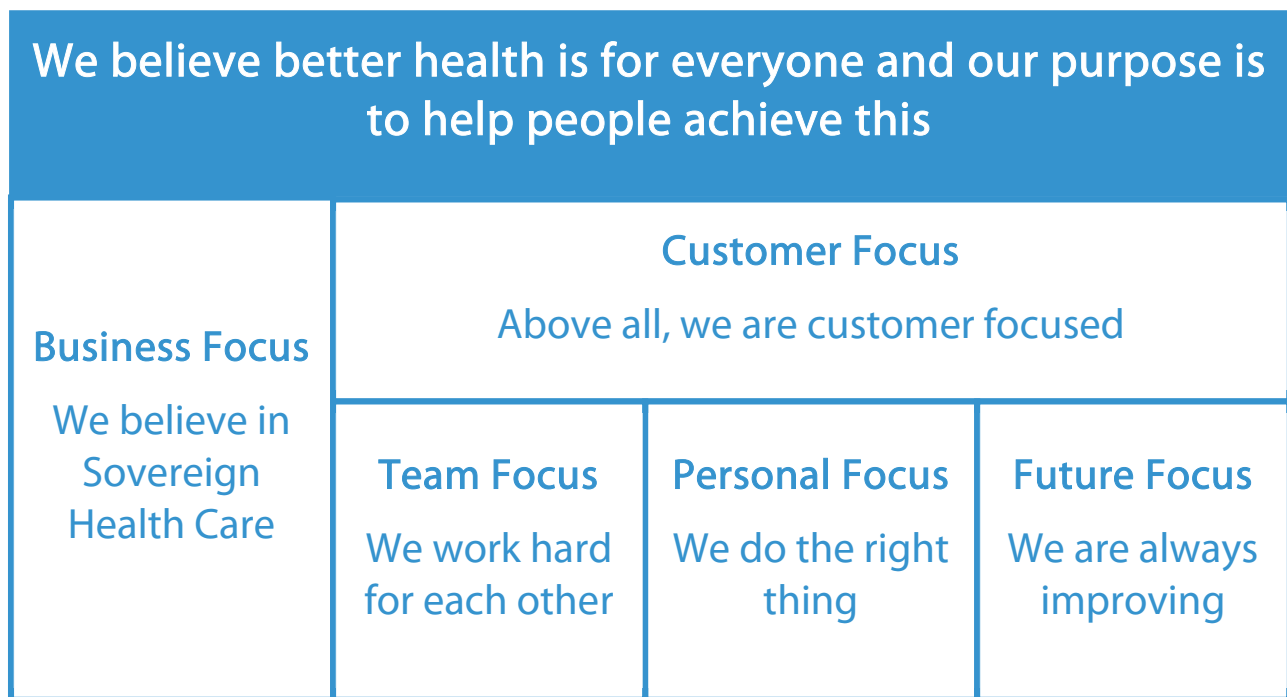
The Strategic report is prepared in accordance with The Companies Act 2006. The report outlines the activities of Sovereign Health Care (the “Company”) and its subsidiaries (the “Group”) in the year and reviews the principal risks facing the Group.

Our purpose and vision

We believe better health is for everyone, and our purpose is to help people achieve this. Sovereign Health Care has been part of improving health care for over 150 years. Our vision, which is purpose linked, is to sustainably grow our importance in driving better health care in our local communities and for customers in our chosen markets for the long term.

Our values

It is important that the values we aspire to align with our company strategy and below summarises the new values introduced in 2024:



Above all, we are customer focused - We respect our customers’ decision to buy from us and strive to meet their expectations. We care about our customers and stakeholders and want to help them achieve their health goals.

We believe in Sovereign Health Care - We believe better health is for everyone and that we have an important role to play in making this happen. We are passionate about the purpose of this business, and our impact on the lives of customers and the community. We are proud to call Bradford and West Yorkshire our home and value this area as the backbone of our success.

We work hard for each other - We hold ourselves and others accountable for the quality of our work and challenge each other to make the team better. We share our knowledge and expertise and welcome new ideas. We motivate each other to achieve our potential and deliver the purpose of Sovereign Health Care.

We do the right thing - We take responsibility for the work we do. We have the confidence to think for ourselves, ask questions, seek feedback, and enable colleagues to do the same. We trust each other and challenge ourselves to do the right thing.

We are always improving - We value looking ahead, preparing for the future and striving to be better. We are curious to learn, improve our skills, solve problems, and overcome challenges, and we suggest ideas to make our work, service, and culture better.

SOVEREIGN HEALTH CARE

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

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 build sustainable growth through our customer numbers
- To improve our operational sustainability through process optimisation and digital transformation
- To deliver value for money and useable products to its customers
- Continue to impact our wider community by aiming to donate £500,000 each year to health and wellbeing charities that align to our purpose

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 focused company that remains in control of its destiny.

Growth in a sustainable 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.

It is in our customers' best interests that on-going policy servicing, new product design and new routes to market are explored and 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.

Improve operational sustainability

Our business plan is focused on a sustainable trading position, relative to our not for profit status. We want to drive organic growth through our product offerings and distribution channels whilst strengthening relationships with our existing policyholders. At the same time, we will seek to explore strategic partnerships to accelerate our growth and expand our market presence. Alongside this, a high priority is on optimising operational efficiency through digital transformation, automation and streamlining processes to improve customer experience. By balancing growth with operational excellence, we will ensure the long term financial resilience and continued value for our customers and stakeholders.

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 they been treated fairly?"

Charitable giving to health and wellbeing good causes

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 gift £500,000 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.

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.

SOVEREIGN HEALTH CARE
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

Business review

Summary of consolidated statement of comprehensive income:

	2024	2023
	£	£
Premium income	10,981,094	9,983,726
Other technical income	60,643	60,973
Claims incurred	(8,477,395)	(7,975,943)
Operating expenses	<u>(4,121,987)</u>	<u>(3,903,503)</u>
Net result	(1,557,645)	(1,834,747)
Investment income	3,829,206	4,624,925
Unrealised gain on other investments	2,003,796	512,846
Revaluations loss on investment property	(289,715)	(616,992)
Charitable donations	(476,045)	(1,513,388)
Other charges	(345,540)	(69,143)
Taxation	<u>(379,207)</u>	<u>822</u>
Retained result for the year	2,784,850	1,104,323
Retained reserves at 31 December	80,210,298	77,425,448

The Directors are confident that the company has adequate resources 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.

Sovereign Health Care continued to uphold its commitment and promise in supporting our customers' health and wellbeing through our health care cash plans and charitable donations to our wider community. In 2024 our focus was to build on a solid foundation and strengthen our capability to enhance our products and services and position the company for sustainable growth all while ensuring financial stability and regulatory compliance.

An integral part of 2024 was completing the product reviews with the continued back drop of the inflationary pressures on both claim values and operational expenses. Any customer price increases are made with careful consideration, as it's never easy to convey this message externally, however we believe our prices are fair, reflecting the growth in claims demand whilst enabling us to maintain and improve our exceptional services throughout the customer journey.

We achieved a record high in claims paid, handling over 191,000 claims and paying £8.2m (2023: £7.7m) to our customers whilst claims paid in the year were processing on average 2.5 days (2023: 3.5 days) after the date the claim was received. This reinforces our dedication to providing financial support to our customers, especially through ongoing economic challenges.

Another great accomplishment was recording our best ever year in new business sales. Our sales volumes achieved 108% of target and new business annualised premium equivalent achieved 117% of our business plan. During the year we experienced a small drop in policyholder numbers, however this also outperformed our financial plan considering the circumstances of the product reviews mentioned earlier. Over the next 3-5 years we will be focused on a growth strategy whilst maintaining a profitable insurance business.

We made significant progress in embedding the principles of Consumer Duty into our everyday operations ensuring delivery of good customer outcomes remains at the heart of everything we do, above all, we are customer focused. The incredible work involved reviewing and enhancing our products and services, and customer interactions to ensure we meet our duty to be fair, transparent and provide good value. We improved our governance framework, provided staff training and implemented robust monitoring to track and enhance customer experience.

Maintaining a robust risk management framework remains a cornerstone of our operations. In 2024, we concluded a comprehensive review of our governance and risk framework, ensuring alignment with the latest regulatory requirements and industry best practices. Our internal controls and governance structures have been strengthened to mitigate potential risks effectively.

SOVEREIGN HEALTH CARE

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

Business review (continued)

2024 represented a significant evolution in our investment strategy by gradually altering our asset allocation within our portfolio to derisk our investments to provide a more defensive position should predicted market volatility and fluctuations occur through into 2025. We remain focused on our strategy to invest for the medium to long term whilst realising a steady stream of investment income. Our investment portfolio, made up of collective funds and property (see note 13), ended the year at £68,954,103 (2023: £63,970,151), coupled with cash equivalents and short term deposits of £11,117,485 (2023: £12,225,522). This significantly contributes to our sustained strong capital position. Dividend income received of £2,014,229 (2023: £1,932,956) was 4% higher than prior year.

Our investment income plays a huge part in our long history of charitable giving, allowing the community programme to support and give back to initiatives with a health and wellbeing focus. We have always been based in the Bradford district, rich in history and culture but one with areas of serious deprivation and structural health inequalities. This year, we gifted £476,045 (2023: £1,513,388) to support local health initiatives, charities and community projects. Our employees also participated in volunteer programmes, demonstrating our collective dedication to making a positive impact on our community.

We are incredibly proud of our achievements this year, particularly with the new business sales and record high claims payouts, which reflect the trust our customers place in us. Building on the momentum of 2024, we enter 2025 with a clear focus – providing value for our customers whilst ensuring longevity of our business heritage.

Key performance indicators (KPI)

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

	2024	2023
Earned premium increase/(reduction)	£997,368	£1,158
Operational expenses relative to earned premium	37%	39%
Surplus on ordinary activities after taxation	£2,784,850	£1,104,323
% of claims paid relative to earned premiums	75%	78%
Solvency UK ratio (unaudited)	294%	286%
Customer satisfaction	96%	94%
Trustpilot rating	4.8 stars	n/a

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

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

Earned premium

Net earned premiums increased by 10% driven by our product review project and record high in new business sales. Net earned premiums of £10,981,094 (2023: £9,983,726) bettered our financial plan, and although member numbers decreased, this was expected due to our pricing strategy change to ensure balance between equitable pricing and fair value in our consumer products. Retention is a clear priority over the upcoming years to ensure our products continue to meet our customers need.

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. Our year end position of 37% was within our agreed target range, and within our operational expenses were one-off costs relating to project works to further develop our product and service offering. A key priority throughout the whole business is to reduce our operational expense ratio through digital transformation, operational efficiency, process improvement and scaling up the business through a growth strategy.

SOVEREIGN HEALTH CARE

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

Surplus on ordinary activities after tax

Overall underwriting results improved by £277k, however the product reviews included a core change to the way the claiming benefit years operated within our consumer products, we were very aware that this artificially increased the claims frequency and claim payouts temporarily whilst this transition occurred in 2024. Surplus on ordinary activities after tax was £2.8m compared to prior years surplus of £1.1m. Surplus on ordinary activities after tax can fluctuate because of the non-technical account as investment returns can vary dependent on market conditions. 2024 proved to be another positive year as our portfolio of collective funds proved a total return of 9.3%, with a limited amount of volatility over the year. Investment income includes dividend income from collective investments net of investment management fees, rental income, interest from cash and timed deposits, plus gains or losses realised on investments. Dividend income alone increased by 4% compared to prior year, which was more than sufficient to fund our charitable donations, which is aligned to 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 does not include provisions and additional benefits we provide to members through third party suppliers.

Typically, we target claim loss ratios between 65-75%, the claims loss ratio has decreased from prior years position to 75% (2023: 78%) as a direct result of the product and pricing reviews, increasing premiums earned. We continue to track claim loss ratios as a key indicator for our underwriting performance which will be closely monitored throughout 2025 following the product changes made in 2024, as stated in the previous section.

Solvency UK 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 capital resources and requirement is governed by the Solvency UK regulatory regime. The company is strongly capitalised with a solvency capital surplus of £52.3m (2023: £49.5m) representing a solvency coverage ratio of 294% (2023: 286%). The capital charge relating to market risk equates to £24.6m (2023: £25m). 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.

	2024	2023
	£	£
Own Funds – Group	79,220,766	76,213,768
Solvency Capital Requirement	(26,917,400)	(26,689,536)
Solvency UK Capital Surplus	52,303,366	49,524,232
Solvency Cover Ratio	294%	286%

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

Customer satisfaction

Customer satisfaction is measured through annual customer surveys and we are extremely proud that 96% (2023: 94%) of our customers are satisfied with their Sovereign Health Care cash plan and 96% (2023: 94%) would recommend us to a friend or family member. These outstanding results reflect our values to providing valuable, accessible and high quality cash plan support. Customer satisfaction and trust are at the center of what we do, and we will continue to listen, evolve and invest in our services to ensure we meeting the need of our policyholders both now and in the future.

Trustpilot rating

This year we are delighted to have achieved an excellent Trustpilot rating of 4.8 stars, a testament to the positive experiences our customers have had with us. Unlike previous years, we did not actively invite customers feedback on this platform, but the whole company has fully embraced the opportunity to hear directly from our policyholders. Their reviews provide valuable insights that help us continuously improve and this outstanding rating reflects the confidence our customers have in us.

SOVEREIGN HEALTH CARE

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

Risk management

Sovereign Health Care uses a standard three lines model for risk management. The company's business strategy and risk appetite are closely aligned and have been reviewed and updated as part of our Solvency UK 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 model comprises primary risk owners (first line), independent risk management and control functions (second line) and an independent internal audit and assurance group (third line).

- First line: The vast majority of employees comprise the first line of defence. Examples include service manager, technology teams, and client servicing teams.
- Second line: A smaller group of employees comprise the second line of defence. These employees have risk and control related duties and provide oversight of the activities performed within the first line.
- Third line: Provides independence assurance from internal and external audits, reporting directly to the chairs of both the Audit and Governance and/or the Risk and Compliance sub groups.

Risk management is reported to the Sovereign Board via the Audit and Governance and/or the Risk and Compliance sub groups.

The risk management framework is owned by Executive Management within the business. In order to provide a structure for the continuous review, challenge and updating of the risk register, a number of key roles have been defined, which run through the entire organisation:

Risk owner	<ul style="list-style-type: none">• agree assessment and scoring of the risk against an agreed framework• sign off any relevant authority levels or limits• agree all mitigating strategies identified, plus determine if new controls are required/existing ones can be modified or removed
Control owner	<ul style="list-style-type: none">• operate and monitor controls identified within the risk register• report regularly to the risk owner regarding operation of controls• confirm the on-going appropriateness of control scoring• recommend any changes in control design

The key process for ensuring risks remain within appetite include:

- Maintenance of a risk register covering key strategic risks
- The Risk and Compliance subgroup regularly discusses on the agenda the risks identified by management and how risks are being managed, trending of risks and potential emerging risks
- Regular Board discussions on key risks and appetite
- An annual Own Risk and Solvency Assessment (ORSA) process that contributed to financial and capital planning

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 UK capital charge relating to market risk equates to £24.6m (2023: £25m). The coverage ratio of 294% (2023: 286%) remains well within the Group's risk appetite. Refer to the Solvency UK 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 low risk investments will act to protect the Company's strong capital position. The Directors continue to closely monitor market conditions and their impact on our investment portfolio through regular reporting through the Commercial subgroup.

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

SOVEREIGN HEALTH CARE

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

Credit Risk

This is referred to in note 14 of the annual report and accounts.

Liquidity Risk

This is referred to in note 14 of the annual report and accounts.

IT Risk

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, exposes 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.

Operational Risk

Operational risk relates to the risk of loss resulting from inadequate or failing internal processes, people, and systems or from external events such as natural disaster or terrorist attacks. Operational disruptions can cause wide reaching harm to our customers and to the Company. Operational resilience remains a key focus for Sovereign Health Care that is deemed an evolutionary process involving continuous learning and development of our response to disruptions.

Operational risks are recorded on Sovereign Health Care's risk register. The material areas of risk are highlighted below:

- Systems and Infrastructure
- Cyber security
- Outsourcing arrangements
- People

Regulatory Risk

Regulation continues to develop and maintaining compliance is key to Sovereign. There is an increasingly complex regulation regime with several bodies responsible for different elements of the rules which must be complied with. As a small insurer, we can face challenges in evolving regulatory frameworks, due to our limited resources. We carefully monitor changes to our regulatory environment, and work with third party advisors, such as legal and compliance consultants, to stay informed of regulatory changes and ensure adherence to best practices, using proportionality where necessary.

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 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 internal and external opportunities for growth whilst ensuring we maintain a sustainable business model.

SOVEREIGN HEALTH CARE
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

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 more prevalent in the past years. Customers wants and needs are at the forefront of our business, and we have sought their insights and feedback by means of survey. Overall, the results were positive with 96% of our customers being satisfied with their cash plan and 96% 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, "Above all, we are customer focused" and acting with integrity remains a key focus. We maintain robust governance and risk frameworks ensuring compliance with the FCA regulations and Solvency UK framework. 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 £0.5m 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 £115k 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
31 March 2025

SOVEREIGN HEALTH CARE

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2024

The directors present their report and financial statements for the year ended 31 December 2024.

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 employers facilitating employee marketing.

Future Developments

Future developments are detailed in the Strategic report of the annual report and accounts.

Political and charitable contributions

The group does not make any political contributions. During the year the company made charitable contributions of £476,045 (2023: £1,513,388).

Financial Instruments

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.

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 (Retiring on 31 March 2025)
A.D.G. Dawson
J. C. Fortune (Retiring on 31 March 2025)
D. G. Heffron (Appointed on 1 March 2025)
K. Hinds
N. A. M McCallum
P. Oldfield (Appointed on 1 March 2025)
S. M. Sedgwick
N. J. Stewart

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

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 2024, attendance at all board meetings and sub groups was 91% (2023: 88%).

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

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

Emissions and energy consumption

The Directors believe in respecting the environment and conducting our business in a responsible way. Having a relatively low headcount, on average 47 (2023: 45) 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

SOVEREIGN HEALTH CARE

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2024

Emissions and energy consumption (continued)

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

Type	2024 (CO2e)	2023 (CO2e)
Scope 1 – emissions from combustible gas	0.0	0.0
Scope 2 – emissions from purchased electricity	13.3	13.9
Scope 3 – emissions from operations	56.4	57.5
Total	69.7	71.4
Intensity Ratio – per employee	1.5	1.6

The scope 1 and 2 emissions are calculated using our annual consumption of energy, taken directly from electricity statements, totaling 56,921 kWh (2023: 59,586). 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 1.5 (2023: 1.6).

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 focused on delivering medium to long term growth whilst creating sufficient dividend income to fund the Community Programme. The Board accepts 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 £62.7m (2023: £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) considerations 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 incorporated 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. 52% of the portfolio's companies are rated ESG leaders, with ratings of AA to AAA. ESG leaders are defined by MSCI as "a company leading its industry in management the most significant ESG risks and opportunities". The weighted rating of all our collective funds is AA. With active engagement from the asset managers, rather than an exclusion mandate, the focus is on evaluating and monitoring effective risk management of climate change. The Directors were pleased these funds produced above average ratings as a result.

Having regard to the nature of our strategic plans, the Board acknowledges climate change to be a risk in regard to our investment portfolio, however these risks are actively managed through the engagement of professional fund managers who integrate ESG considerations into their investment strategies.

The Group continues to monitor climate change developments to ensure understanding of the impacts are appropriately reflected in our strategic plans and ORSA, if considered as a material risk.

SOVEREIGN HEALTH CARE

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

Corporate governance

It is important that our corporate governance structure is fit for purpose, appropriate for our business and 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, legal, accountancy, banking and insurance broking and we firmly believe the Board consists of appropriate skills and experience.

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 of reference are reviewed periodically alongside membership to ensure an appropriate balance of expertise, diversity and objectivity.

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 appropriately 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 and the group relaunched its purpose, vision and values in 2024 as detailed in the Strategic report. 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.
Board Composition	<p>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.</p> <p>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.</p> <p>The Articles of Association reflects 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., legal and health, IT transformation, as well as the requisite experience of financial services and the insurance industry. All Board members are considered for reappointment every three years.</p>

SOVEREIGN HEALTH CARE

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

Compliance with the AFM Corporate Governance Code (continued)

Opportunity and Risk	<p>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. The risk management framework and key risks are detailed in the Strategic report.</p>
Remuneration	<p>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 with its key responsibilities being:</p> <ul style="list-style-type: none">• Remuneration of the Non-Executive Directors• Remuneration of the Executive Directors• Review and agree bonus structures and salary increases for staff• Review effectiveness of the bonus structures <p>Periodically, external consultancy is sought to benchmark pay for both executive and non-executive directors, as well as all job roles within the company. A benchmarking activity is currently ongoing and the aim of this is to ensure remuneration structures are sufficient to attract the right caliber of individual for key roles.</p> <p>Remuneration of directors is shown in note 7 of the annual report and accounts.</p>
Stakeholder Relations and Engage	<p>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.</p> <p>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.</p> <p>Technically Sovereign's members are the Directors, and this is why the recruitment of new directors and the importance of the philanthropic nature of the business is vital. Since 1873 Sovereign has supported the local community in many guises and wishes this to continue for years to come.</p> <p>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.</p> <p>Customer feedback is collected each year through a customer survey and has recently moved to a digital basis to collate feedback more effectively. Customers are also invited to provide feedback through Trustpilot.</p>

Going concern

The Directors have formed a judgement at the time of approving the financial statements, that there is reasonable expectation that the Group have adequate resources to continue in operational for a period of at least 12 months from the date of these financial statements – see note 1.2 to the financial statements.

Directors' reporting disclosures

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

SOVEREIGN HEALTH CARE

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

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.

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.

On behalf of the Board



**J. C. Fortune - Chair
Director
31 March 2025**

SOVEREIGN HEALTH CARE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE FOR THE YEAR ENDED 31 DECEMBER 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 Parent Company's affairs as at 31 December 2024 and of the Group'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 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2024 which comprise the Consolidated statement of comprehensive income - Technical Account, the Consolidated statement of comprehensive income - Non-Technical Account, 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 except that element of Note 14 which is marked as 'Unaudited', 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 UK and Republic of Ireland and the 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 & Governance Committee.

Independence

Following the recommendation of the Audit & Governance Committee, we were appointed by the Board of Directors on September 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 7 years, covering the years ended 31 December 2018 to 31 December 2024. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and reviewing the Directors' going concern assessment to determine whether the factors assessed are appropriate;
- Reviewing the clerical accuracy of the information included in the analysis;
- Challenging the nature and amount of stresses applied to the base case analysis;
- Obtaining and reviewing the Solvency and Financial Condition Report ('SFCR') and the Own Risk and Solvency Assessment ('ORSA') to understand the extent of capital in excess of regulatory requirement; and
- Enquiries of the Directors and reviewing management information, board minutes and regulatory correspondences to identify any factor that may cast significant doubt on the Group and Parent Company's ability to continue as going concerns.

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 the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

SOVEREIGN HEALTH CARE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued) FOR THE YEAR ENDED 31 DECEMBER 2024

Conclusions relating to going concern (continued)

Overview

Key audit matters		2024	2023
	Insurance Provisions (IBNR)	x	✓
	Valuation of Freehold Land and Buildings	✓	✓
	We have reassessed Provision for claims outstanding and concluded that it should not be a key audit matter. This decision has been reached on account of the quantum of the provision and our consideration of the resulting risk of material misstatement and the short tail nature of the liability.		
Materiality	Group financial statements as a whole £1,604m (2023 - £1,526m) based on 2% of net assets (2023: 2% of net assets)		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, the applicable financial reporting framework and the Group's system of internal control. We identified and assessed the risks of material misstatement of the Group financial statements including those arising from the consolidation process. We then applied professional judgement to focus our audit procedures on the areas that posed the greatest risks to the group financial statements. We continually assessed risks throughout our audit, revising the risks where necessary, with the aim of reducing the group risk of material misstatement to an acceptable level, in order to provide a basis for our opinion.

The Group consists of the Parent Company and three subsidiaries (2023: three subsidiaries) which operate under a common control environment. Overall, we concluded the group to be made up of four components and that two of them would be in scope for the purposes of the Group audit. These components were selected because they represented risks of material misstatement to the group financial statements. The components in scope were:

- The Parent Company; and
- SHC Property Investments Limited.

For components in scope, we used a combination of risk assessment procedures and further audit procedures to obtain sufficient appropriate evidence. These further audit procedures included:

Component	Component Name	Group Audit Scope
1	Sovereign Health Care Limited	Statutory audit and procedures on the entire financial information of the component.
2	SHC Property Investments Limited	Procedures on one or more classes of transactions, account balances or disclosures

The Group engagement team performed all procedures directly and did not involve component auditors in the Group audit.

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.

SOVEREIGN HEALTH CARE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued) FOR THE YEAR ENDED 31 DECEMBER 2024

Key audit matters (continued)

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Valuation and Classification of Investment Property Investment property is valued at £6,223,950 (2023: £6,513,664) with the own use portion carried £1,026,051 (2023: £1,086,336).</p> <p><i>For further detail refer to accounting policies 1.7 and 1.10, Critical accounting judgements included in Note 2, and Notes 12 and 13 of the financial statements</i></p> <p>The investment property is held at fair value. The risk to the financial statements arises initially on account of both the quantum of the carrying value and the subjectivity in determining that valuation, particularly as regards the yield and market rent assumptions.</p> <p>Furthermore, the existence of an 'own use' portion of the property introduces further risk that, as part of the consolidation, the re-presentation of this element is performed incorrectly</p>	<p>In order to obtain sufficient, appropriate audit evidence with respect the valuation and classification of the investment property we performed the following procedures in conjunction with our property valuation experts:</p> <ul style="list-style-type: none"> - Obtained an understanding of the process and key controls over the determination and recognition of the fair value of the investment property; - Assessed the qualifications and experience of the valuation expert engaged by management; - Obtained and reviewed the year end valuation report produced by that expert; - Challenged the appropriateness of the overall methodology adopted and the key assumptions used in calculating the fair value with reference to market practice and comparable data points; and - Concluded on the reasonableness of the adopted value. <p>With respect to the classification we:</p> <ul style="list-style-type: none"> - Considered whether the owner occupied proportion was correctly calculated in determining the presentation of the property asset; and - Tested the accuracy of the required journal postings. <p>Key Observations:</p> <p>Overall we have concluded that the valuation is reasonable and that the property is appropriately presented within the financial statements.</p>

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.

SOVEREIGN HEALTH CARE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued) FOR THE YEAR ENDED 31 DECEMBER 2024

Our application of materiality (continued)

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	
	2024 (£'000)	2023 (£'000)	2024 (£'000)	2023 (£'000)
Materiality	1,604	1,565	1,598	1,538
Basis for determining materiality	2% of Net assets.			
Rationale for the benchmark applied	In establishing materiality, we had regard to the focus of the key stakeholders who we determined to be policyholders (with a focus on solvency as a measure of the ability to pay claims) and the Prudential Regulation Authority and Financial Conduct Authority as regulators (with a focus on balance sheet strength and solvency). Given the focus of these stakeholders, we determined net assets as the most appropriate basis upon which to set materiality. Net assets also correlate with one of the Group's key performance indicators, Solvency II ratio, albeit this is a non-GAAP measure (refer to page 5).			
Performance materiality	1,043	1,017	1,039	999
Basis for determining performance materiality	65% of materiality			
Rationale for the percentage applied for 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.			

Component performance materiality

For the purposes of our Group audit opinion, all procedures on in scope components have been performed to Group performance materiality £1.043m (2023: £1.017m).

Reporting threshold

We agreed with the Audit & Governance Committee that we would report to them all individual audit differences in excess of £48,120 (2023: £46,950) for the group and £47,940 (2023: £46,140) for the Parent Company. We also agreed to report differences below this threshold 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 document entitled "Annual Report and Financial Statements" other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

SOVEREIGN HEALTH CARE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued) FOR THE YEAR ENDED 31 DECEMBER 2024

Other Companies Act 2006 reporting

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

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none">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; andthe Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none">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; orthe Parent Company financial statements are not in agreement with the accounting records and returns; orcertain disclosures of Directors' remuneration specified by law are not made; orwe have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Director's Responsibilities the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Non-compliance with laws and regulations

Based on:

- our understanding of the Group and the industry in which they operate;
- discussion with management and those charged with governance;
- obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations;
- review of correspondence with regulators; and
- inspecting Board and Audit & Governance Committee minutes

We considered the significant laws and regulations to be those related to elements of company law and the applicable financial reporting framework. 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.

SOVEREIGN HEALTH CARE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued) FOR THE YEAR ENDED 31 DECEMBER 2024

Non-compliance with laws and regulations (continued)

We identified such laws and regulations to be the permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

Our procedures in respect of the above included:

- review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;
- review of correspondences with the PRA and FCA for any instances of non-compliance with laws and regulations;
- review of financial statement disclosures and agreeing to supporting documentation; and
- enquiring of the Directors and other management of instances of non-compliance

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- enquiring of management and those charged with governance regarding any known or suspected instances of fraud;
- obtaining an understanding of the Group's and 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.
- reviewing minutes of meetings of those charged with governance for any known or suspected instances of fraud;
- discussing amongst the engagement team as to how and where fraud might occur in the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- considering remuneration schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the most significant fraud risk to relate to the potential for management override of controls.

Our procedures in respect of the above included:

- testing a sample of journal entries throughout the year, which met defined risk criteria, by agreeing to supporting documentation; and
- assessing significant estimates made by management for bias, refer to Key Audit Matters above.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities 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 Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signed by:


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Giles Watson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor, London, UK
01 April 2025

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 2024

	Notes	£	2024 £	£	2023 £
Technical Account - General Business					
Gross premiums written		11,001,046		9,953,503	
Change in gross provisions for unearned premiums	16	(19,952)		30,223	
Net premiums earned	3		10,981,094		9,983,726
Other income/commissions received			60,643		60,973
Allocated investment returned transferred from non technical account	8		3,009,425		2,802,821
			14,051,162		12,847,520
Claims and claims handling expenses paid		(8,481,147)		(7,921,233)	
Change in the gross provision for claims	16	3,752		(54,710)	
Claims incurred	4		(8,477,395)		(7,975,943)
Net operating expenses	5		(4,111,511)		(3,904,205)
Change in other provisions	17		(10,476)		702
			(12,599,382)		(11,879,446)
Balance on the technical account for general business			1,451,780		968,074

The notes on pages 27 to 44 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 2024

	Notes	2024 £	2023 £
Non-technical Account			
Balance on the technical account for general business		1,451,780	968,074
Investment income	8	3,829,206	4,624,925
Investment return allocated to technical account	8	(3,009,425)	(2,802,821)
Unrealised gain on other investments		2,003,796	512,846
Revaluation loss on investment property	13	(289,715)	(616,992)
Other charges	9	(345,540)	(69,143)
Charitable donation		(476,045)	(1,513,388)
Surplus on ordinary activities before taxation		3,164,057	1,103,501
Tax on ordinary activities	10	(379,207)	822
Surplus on ordinary activities after taxation		2,784,850	1,104,323

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 27 to 44 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 2024

		Total Reserves
Group	Notes	£
At 1 January 2023		76,321,125
Surplus for the year	20	<u>1,104,323</u>
Balance at 31 December 2023		<u>77,425,448</u>
At 1 January 2024		77,425,448
Surplus for the year	20	<u>2,784,850</u>
Balance at 31 December 2024		<u><u>80,210,299</u></u>
Company		
At 1 January 2023		75,448,740
Surplus for the year	11 & 20	<u>1,170,195</u>
Balance at 31 December 2023		<u>76,618,935</u>
At 1 January 2024		76,618,935
Surplus for the year	11 & 20	<u>3,296,579</u>
Balance at 31 December 2024		<u><u>79,915,514</u></u>

SOVEREIGN HEALTH CARE

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2024

		Group		Company	
		2024	2023	2024	2023
	Notes	£	£	£	£
ASSETS					
Investments					
Investment in subsidiaries	13	-	-	10,200	10,200
Investment property	13	6,223,949	6,513,664	-	-
Other financial investments	13	62,732,673	62,692,289	62,732,673	62,692,289
		<u>68,956,622</u>	<u>69,205,954</u>	<u>62,742,873</u>	<u>62,702,489</u>
Debtors					
Debtors arising out of direct insurance operations		570,866	394,000	559,593	644,894
Other Debtors	15	226,137	1,149,622	7,444,765	9,435,907
		<u>797,003</u>	<u>1,543,622</u>	<u>8,004,358</u>	<u>10,080,801</u>
Other Assets					
Tangible assets	12	1,763,356	2,005,468	737,305	919,132
Cash and cash equivalents		11,117,485	6,992,239	10,375,550	5,022,990
		<u>12,880,841</u>	<u>8,997,707</u>	<u>11,112,855</u>	<u>5,942,122</u>
Prepayments and accrued income		404,703	546,060	397,824	539,100
Total assets		<u>83,039,169</u>	<u>80,293,342</u>	<u>82,257,910</u>	<u>79,264,512</u>

SOVEREIGN HEALTH CARE

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

		Group		Company	
		2024	2023	2024	2023
	Notes	£	£	£	£
RESERVES AND LIABILITIES					
Technical provisions					
Provision for unearned premiums	16	372,190	352,238	372,190	352,238
Provision for claims outstanding	16	699,321	709,554	699,321	709,554
Provision for claims handling expenses	16	21,902	15,421	21,902	15,421
		<u>1,093,413</u>	<u>1,077,213</u>	<u>1,093,413</u>	<u>1,077,213</u>
Other provisions	17	266,727	296,139	266,727	296,139
Creditors					
Other creditors including taxation and social security	18	946,272	964,768	472,066	798,347
Accruals and deferred income		<u>522,459</u>	<u>529,774</u>	<u>510,190</u>	<u>473,878</u>
Total liabilities		<u>2,828,871</u>	<u>2,867,894</u>	<u>2,342,396</u>	<u>2,645,577</u>
Net assets		<u>80,210,298</u>	<u>77,425,448</u>	<u>79,915,514</u>	<u>76,618,935</u>
Capital and reserves					
Reserves	20	<u>80,210,298</u>	<u>77,425,448</u>	<u>79,915,514</u>	<u>76,618,935</u>
		<u>80,210,298</u>	<u>77,425,448</u>	<u>79,915,514</u>	<u>76,618,935</u>
Total reserves and liabilities		<u>83,039,169</u>	<u>80,293,342</u>	<u>82,257,910</u>	<u>79,264,512</u>

The company's surplus for the financial year is £3,296,579 (2023: £1,170,195 surplus) – see note 11.

The notes on pages 27 to 44 form an integral part of the financial statements. The financial statements were approved by the Board of directors and authorised for issue on 31 March 2025.

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 2024

	Notes	2024 £	2023 £
Cash flows from operating activities			
Surplus on ordinary activities before taxation		3,164,057	1,103,501
Adjustments for:			
Investment income		(3,009,425)	(2,278,449)
Revaluation loss on land and buildings	12	60,285	74,469
Depreciation of tangible fixed assets	12	187,090	173,608
Revaluation loss on investment property	13	289,715	616,992
Gain on sale of investments		(1,152,553)	(2,128,078)
Unrealised gain on other investments		(2,003,796)	(512,846)
(Increase)/decrease in debtors, prepayments and accrued income		(88,362)	477,437
(Decrease)/increase in creditors, provisions, accruals and deferred income		(175,817)	621,696
Cash from operations		<u>(2,728,806)</u>	<u>(1,851,670)</u>
Income taxes refunded		640,163	-
Net cash used operating activities		<u>(2,088,643)</u>	<u>(1,851,670)</u>
Cash flows from investing activities			
Dividend, interest and rent received		3,103,190	2,184,724
Purchase of fixed assets		(5,263)	(1,340,860)
Purchase of other investments		(11,626,084)	(13,434,674)
Purchase of investment property		-	(7,130,656)
Proceeds on disposal of investment property		-	790,062
Proceeds on disposal of other investments		14,742,046	7,623,046
Net cash from/(used) investing activities		<u>6,213,889</u>	<u>(11,308,359)</u>
Net increase/(decrease) in cash and cash equivalents		<u>4,125,246</u>	<u>(13,160,029)</u>
Cash and cash equivalents at beginning of year		6,992,239	20,152,267
Cash and cash equivalents at end of year		<u>11,117,485</u>	<u>6,992,239</u>
		2024	2023
		£	£
Cash and cash equivalents comprise:			
Available in less than 3 months		11,094,865	6,974,710
Greater than 3 months – less than 6 months		-	-
Greater than 6 months		-	-
Cash in hand		22,620	17,529
Total		<u>11,117,485</u>	<u>6,992,239</u>

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

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 2024. 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 2025 to 2027, the Solvency UK capital requirements and coverage ratios including stress testing on the Solvency UK 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.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

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 through the technical account on the statement of comprehensive income 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 consolidated statement of comprehensive income when realised.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

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 statement of comprehensive income.

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.

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

1.9 Investments in subsidiaries

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

1.10 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 consolidated statement of comprehensive income 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 use properties. The part which is mixed use will be classified as land and buildings under tangible fixed assets – see note 1.7.

1.11 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 consolidated statement of comprehensive income, 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 consolidated statement of comprehensive income, 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.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

1 Accounting policies (continued)

1.12 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.

1.13 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 are measured at fair value through profit and loss.

Loans and receivables

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

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

Impairment of financial assets

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

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

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.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

1 Accounting policies (continued)

1.14 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 are measured at fair value through profit and loss.

Other financial liabilities

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

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

Derecognition of financial liabilities

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

1.15 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.

1.16 Provisions

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

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

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

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

1 Accounting policies (continued)

1.17 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.

1.18 Retirement benefits

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

1.19 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 consolidated statement of comprehensive income 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 classified as operating leases. Payments under operating leases are charged through the consolidated statement of comprehensive income 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 Directors have considered the impact of climate change when determining the carrying value of assets and liabilities and have concluded that there is no material impact. 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 £699,321 (2023: £709,554) 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, £6,223,949 (2023: £6,513,664) of the investment property has been derived from a valuation carried out on 9 January 2025 for the financial reporting period ending 31 December 2024. 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.

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

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.

	2024	2023
	£	£
Gross premiums written (including IPT)	12,318,574	11,151,345
less: Insurance premium tax (IPT)	<u>(1,317,528)</u>	<u>(1,197,842)</u>
Gross premiums written	11,001,046	9,953,503
Change in gross provisions for unearned premiums	<u>(19,952)</u>	<u>30,223</u>
Net premiums earned	<u><u>10,981,094</u></u>	<u><u>9,983,726</u></u>

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.

4 Claims incurred

	2024	2023
	£	£
Claims paid	8,229,486	7,744,684
Claims handling expenses paid	251,661	176,549
Change in provision for outstanding claims	(10,233)	52,337
Change in provision for claims handling expenses	<u>6,481</u>	<u>2,373</u>
	<u><u>8,477,395</u></u>	<u><u>7,975,943</u></u>

5 Net operating expenses

	2024	2023
	£	£
Acquisition costs	1,211,570	1,199,371
Administration	<u>2,899,941</u>	<u>2,704,834</u>
	<u><u>4,111,511</u></u>	<u><u>3,904,205</u></u>
Net operating expenses include the following:		
Revaluation of land and buildings	60,285	74,469
Depreciation of tangible assets	187,090	173,608
Plant and machinery operating lease costs	20,406	22,791

Auditors' remuneration (exclusive of VAT)

	2024	2023
	£	£
Fees payable to the group's auditor for the audit of the company's annual accounts	132,000	103,580
Fees payable to the group's auditor for the audit of the subsidiary companies annual accounts	<u>-</u>	<u>36,420</u>
	<u><u>132,000</u></u>	<u><u>140,000</u></u>

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

6 Employees

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

	2024	2023
	Number	Number
Sales and Marketing	18	17
Customer services	11	7
Claims	7	9
Charity	1	1
Business Services	4	5
Administration and finance	6	6
	<u>47</u>	<u>45</u>

Their aggregate remuneration comprised:

	2024	2023
	£	£
Wages and Salaries	1,905,609	1,887,497
Social security costs	193,066	185,842
Other pensions costs	139,289	131,570
Personal accident and health insurance	38,260	33,983
	<u>2,276,224</u>	<u>2,238,892</u>

7 Directors' remuneration

	2024	2023
	£	£
Remuneration for qualifying services	402,195	446,089
Company pension contributions to defined contribution schemes	27,259	29,016
	<u>429,454</u>	<u>475,105</u>

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

Remuneration for qualifying services	150,675	191,741
Contribution to defined contribution pension	14,000	15,609

8 Investment Income

	2024	2023
	£	£
Income from listed investments	2,014,481	1,932,956
Rental income from investment property	682,758	524,372
Bank and other interest	312,186	345,493
Allocated investment return allocated to technical account	3,009,425	2,802,821
Investment Management fees	(332,772)	(305,974)
Realised gains on investments	1,152,553	2,128,078
	<u>3,829,206</u>	<u>4,624,925</u>

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

9 Other charges

	2024	2023
	£	£
Community programme costs	22,874	17,592
Other non technical charges and fees	322,666	51,551
	<u>345,540</u>	<u>69,143</u>

10 Taxation

	2024	2023
	£	£
Current tax		
UK corporation tax on surplus for current period	419,095	-
Adjustments in respect of prior period	-	-
Total current tax	<u>419,095</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	(39,888)	7,568
Reversal for investment property disposal	-	(8,391)
Total deferred tax	<u>(39,888)</u>	<u>(822)</u>
Total tax	<u>379,207</u>	<u>(822)</u>

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

	2024	2023
	£	£
Surplus before taxation on continued operations	<u>3,164,057</u>	<u>1,103,501</u>
Surplus on ordinary activities before taxation multiplied by standard rate of corporation tax of 25%(2023 - 23.52%)	<u>791,014</u>	<u>259,543</u>
Effects of:		
Disallowable expenses/income	440	417
Revaluation of investment property	87,500	162,632
Depreciation add back	46,772	40,836
Capital allowances	(2,412)	(43,453)
Dividends and distributions received	(503,620)	(454,631)
Impact of deferred tax	(39,888)	(822)
Tax rate differences	2	-
Marginal relief impact	(601)	-
Losses brought forward	-	34,657
Total current tax	<u>(411,807)</u>	<u>(260,364)</u>
Total tax	<u>379,207</u>	<u>(822)</u>

SOVEREIGN HEALTH CARE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

10 Taxation (continued)

Deferred tax balances as at 31 December 2024 are measured at 25% (2023: 25%). Deferred tax assets have not been 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 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 surplus for the financial year is made up as follows:

	2024 £	2023 £
Holding company's surplus for the financial year	3,296,579	1,170,195

12 Tangible Fixed Assets

Group	Freehold land and buildings £	Tenant additions £	Computer equipment £	Office furniture and equipment £	Total £
Cost					
At 1 January 2024	1,086,336	569,756	343,099	322,791	2,321,982
Additions	-	-	-	5,263	5,263
Revaluation loss	(60,285)	-	-	-	(60,285)
At 31 December 2024	1,026,051	569,756	343,099	328,054	2,266,960
Depreciation					
At 1 January 2024	-	107,651	72,855	136,008	316,514
On disposal	-	-	-	-	-
Charge for the year	19,551	54,011	79,354	53,725	206,641
Depreciation reversal on revaluation	(19,551)	-	-	-	(19,551)
At 31 December 2024	-	161,662	152,209	189,733	503,604
Net book value					
At 31 December 2024	1,026,051	408,094	190,890	138,321	1,763,356
At 31 December 2023	1,086,336	462,105	270,244	186,783	2,005,468

The Waterfront, the land and buildings of the Group, was professionally valued by Eddisons, Chartered Surveyors, on 9 January 2025 for the financial reporting period ending 31 December 2024. 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, this is 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 £7.25m (2023: £7.6m), split between land and buildings of £1.05m (2023: £1.1m) and investment property of £6.2m (2023: £6.5m) (see note 13).

The fair value of land and buildings of £1,026k (2023: £1,086k) includes land valued at £162k (2023: £172k), which is not depreciated. The historic cost of the freehold land and buildings was £1,122k (2023: £1,143k).

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

12 Tangible Fixed Assets (continued)

Company	Freehold land and buildings £	Tenant additions £	Computer equipment £	Office furniture and equipment £	Total £
Cost					
At 1 January 2024	-	569,756	343,099	322,791	1,235,646
Additions	-	-	-	5,263	5,263
Reclassification	-	-	-	-	-
Revaluation	-	-	-	-	-
At 31 December 2024	-	569,756	343,099	328,054	1,240,909
Depreciation					
At 1 January 2024	-	107,651	72,855	136,008	316,514
On disposal	-	-	-	-	-
Charge for the year	-	54,011	79,354	53,725	187,090
At 31 December 2024	-	161,662	152,209	189,732	503,604
Net book value					
At 31 December 2024	-	408,094	190,890	138,321	737,305
At 31 December 2023	-	462,105	270,244	186,783	919,132

13 Investments

Investment in subsidiaries	Company Shares in subsidiaries £	Total Shares in subsidiaries £
Cost or valuation		
At 1 January 2024	10,200	10,200
Additions	-	-
	10,200	10,200
Carrying amount		
At 31 December 2024	10,200	10,200
At 31 December 2023	10,200	10,200

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

The details of investments in the subsidiary undertakings held by the Company 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

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

13 Investments (continued)

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

Sovereign Assured Partners Limited for the year ending 31 December 2024 was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies. The members have not required the Company to obtain an audit of its accounts for the period ended 31 December 2024 in accordance with section 476.

In accordance with Section 479A of the Companies Act 2006, the below subsidiaries are exempt from the requirement to have their financial statements audited for the year ended 31 December 2024. The Company has complied with all conditions of Section 479A for exemption from audit, including that the Company has provided a parental guarantee under Section 479C, over the liabilities to the following subsidiaries:

Subsidiary	Registered No.
Sovereign Health and Insurance Services Limited	07401863
SHC Property Investments Limited	14338080

Investment property	2024	2023
	£	£
Group		
At 1 January	6,513,664	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)
Revaluation (loss)/gain	(289,715)	(616,992)
	<hr/>	<hr/>
At 31 December	6,223,949	6,513,664
	<hr/>	<hr/>

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 9 January 2025 for the financial reporting period ending 31 December 2024. 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 £6.2m (2023: £6.5m). At group level, the part of the property rented to the parent company, is classified as mixed use properties, and held at the revaluation model, with depreciation being charged on the buildings element (see note 12).

Investment property	2024	2023
	£	£
Company		
At 1 January	-	788,562
Disposals	-	(790,062)
Gain on disposal	-	1,500
	<hr/>	<hr/>
At 31 December	-	-
	<hr/>	<hr/>

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

13 Investments (continued)

Other financial investments

Group and Company	2024	2023
	£	£
Current assets		
Listed on a recognised investment exchange	62,730,154	57,456,487
Deposits with credit institutions	-	5,233,283
Non current assets		
Unlisted shares	2,519	2,519
Total other financial investments	<u>62,732,673</u>	<u>62,692,289</u>
Group and company	2024	2023
	£	£
Listed on a recognised investment exchange:		
Cost of share or other variable yield securities and units in unit trust	54,771,863	51,503,702
Market valuation adjustments	7,958,291	5,952,785
At fair value	<u>62,730,154</u>	<u>57,456,487</u>
Group and company	2024	2023
	£	£
Cost or valuation		
At 1 January	2,519	2,519
Additions	-	-
	<u>2,519</u>	<u>2,519</u>
Carrying amount		
At 31 December	<u>2,519</u>	<u>2,519</u>

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 statement of comprehensive income.

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.

Listed investments of shares in unit trusts totalling £62,730,154 (2023: £57,456,487) are stated at market prices and are all based on Level 1 inputs.

Cash equivalents of £11,094,865 (2023: £12,207,993) are all due within 3 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 (2023: £2,519) This is based on cost which is deemed an appropriate approximation of fair value as a Level 3 input.

SOVEREIGN HEALTH CARE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

14 Financial instruments (continued)

	Group 2024 £	Group 2023 £	Company 2024 £	Company 2023 £
Financial assets held at fair value				
Shares, other variable-yield securities and units in unit trusts	62,730,154	57,456,487	62,730,154	57,456,487
Total financial instruments held at FV	62,730,154	57,456,487	62,730,154	57,456,487
Financial assets held at amortised cost				
Cash held at credit institutions and in hand	11,117,485	6,992,239	10,375,549	5,022,990
Deposits with credit institutions	-	5,233,283	-	5,233,283
Debtors arising out of direct insurance operations	570,866	394,000	559,593	644,894
Other debtors	197,742	257,257	7,416,370	8,543,542
Unlisted investments	2,519	2,519	2,519	2,519
Accrued income and prepayments	404,703	546,060	397,824	539,100
Total financial instrument held at amortised cost	12,293,315	13,425,358	18,751,855	19,986,328
Total financial assets	75,023,469	70,881,845	81,482,009	77,442,815
	2024 £	2023 £	2024 £	2023 £
Financial liabilities held at amortised cost				
Creditors & Accruals	912,496	1,173,842	656,360	968,265
Total financial liabilities held at amortised cost	912,496	1,173,842	656,360	968,265
Total financial liabilities	912,496	1,173,842	656,360	968,265

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 £62,730,154 (2023: £57,456,487) 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 UK, our investments are stressed on interest rate risk, equity risk, currency risk and concentration risk. The capital requirement relating to market risk equates to £24.6m (2023: £25m) and the Board are of the opinion we hold sufficient capital reserves to cover this risk charge as demonstrated by our Solvency UK coverage ratio of 294% (2023: 286%). References to Solvency UK calculations are unaudited.

Equity Risk

Equity risk is the financial risk associated with the underlying equity investments within the collective funds, primary leading to the market price of shares falling. Equity risk and its measurements is prescribed by the Solvency UK 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 £17.1m (2023: £18m). In performing sensitivity analysis, a 20% fall in the equity market would result in a £9m (2023: £10m) deficit and equivalent reduction on reserves, our Solvency UK coverage ratio would increase to 307% (2023: 297%) whereas a 20% increase in the equity market would decrease our Solvency UK coverage ratio to 284% (2023: 277%). References to Solvency UK calculations are unaudited.

SOVEREIGN HEALTH CARE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

14 Financial instruments (continued)

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 £8.4m (2023: £8.5m) reduction in reserves. A 25% increase in non-GBP currency assets would result in a decrease of our Solvency UK coverage ratio from 294% to 281% (2023: 286% to 276%). This is well within the Group's risk tolerance limit of 200%. References to Solvency UK calculations are unaudited.

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 (excluding cash in hand) of £11,094,865 (2023: £12,207,993) are held with a number of counterparties and differing terms. 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:

	2024	2023
Immediately available or less than 3 months	£11,094,865	£6,974,710
Greater than 3 but less or equal to 6 months	-	£3,033,928
Greater than 6 months	-	£2,199,355
	£11,094,865	£12,207,993

The Group also holds cash in hand of £22,620 (2023: £17,529). 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 £1,468,731 (2023: £1,494,542), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £721,223 (2023: £724,975). 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 £570,866 (2023: £394,000) and other debtors of £197,742 (2023: £257,257). The company is exposed to credit risk through the potential for default on any of the balances due. Debtors arising out of direct insurance operations are deemed as low risk due to the nature of the monthly renewable cash plan product and therefore classed as unrated for credit risk purposes. To mitigate the risk the company performs appropriate levels of investigation over potential partners, with credit institution deposits in particular being subject to the requirements laid out in the appropriate risk policies. Counterparties that hold cash equivalents and deposits have credit ratings between A and B (2023: Rated between AA and BBB).

None of the financial asset reported in the financial statements are past due or determines to be impaired as at the end of the reporting period.

Capital Management (Solvency UK - unaudited)

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 £79.2m (2023: £76.2m). All of Sovereign Health Care's capital under Solvency UK is classed as Tier 1, this highest quality of capital. This is eligible to cover both the SCR of £26.9m (2023: £26.7m) and MCR of £6.7m (2023: £6.7m). 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.

Capital balances disclosed in these financial statements are unaudited as the Company's Solvency and Financial Condition Report falls outside of the audit regime.

SOVEREIGN HEALTH CARE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

15 Other Debtors

Due within one year	Group 2024 £	Group 2023 £	Company 2024 £	Company 2023 £
Intercompany debtors	-	-	7,292,172	8,502,599
Corporation tax debtor	28,395	892,365	28,395	892,365
Other debtors	197,742	257,257	124,198	40,943
	<u>226,137</u>	<u>1,149,622</u>	<u>7,444,765</u>	<u>9,435,907</u>

The intercompany debtors relates to the purchase of The Waterfront. The Waterfront property is owned by SHC Property Investments Limited and Sovereign Health Care had paid for the property on behalf of its subsidiary. All intercompany balances are interest free and repayable on demand.

16 Technical Provisions

	Group 2024 £	Group 2023 £	Company 2024 £	Company 2023 £
Unearned Premiums				
As at 1 January	352,238	382,462	352,238	382,462
Movement in provision	19,952	(30,224)	19,952	(30,224)
As at 31 December	<u>372,190</u>	<u>352,238</u>	<u>372,190</u>	<u>352,238</u>
Provision for outstanding claims				
As at 1 January	709,554	657,217	709,554	657,217
Movement in provision	(10,233)	52,337	(10,233)	52,337
As at 31 December	<u>699,321</u>	<u>709,554</u>	<u>699,321</u>	<u>709,554</u>
Provision for outstanding claims handling expenses				
As at 1 January	15,421	13,048	15,421	13,048
Movement in provision	6,481	2,373	6,481	2,373
As at 31 December	<u>21,902</u>	<u>15,421</u>	<u>21,902</u>	<u>15,421</u>

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:

SOVEREIGN HEALTH CARE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024

16 Technical Provisions (continued)

	Surplus/(deficit) before tax		Reserves	
	2024	2023	2024	2023
	£	£	£	£
Before sensitivities	3,164,057	1,103,501	80,210,298	77,425,448
After applying claims sensitivity				
- 5% increase in claims loss ratio	(46,565)	(46,834)	80,163,734	77,378,614
- 5% decrease in claims loss ratio	46,564	46,834	80,256,862	77,472,282

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 UK 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	2024	2023
	£	£
Provision for FSCS compensation levy		
Balance as at 1 January	99,535	100,237
Change in provision	10,476	(702)
Balance as at 31 December	110,011	99,535
	2024	2023
	£	£
Provision for deferred tax		
Balance as at 1 January	196,604	197,426
Change in provision (see note 10)	(39,888)	(822)
Balance as at 31 December	156,716	196,604
Total other provisions	266,727	296,139

The FSCS compensation levy is required by the FCA to cover unforeseen circumstances which would result in a position whereby the company would be unable to make payments 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. Deferred tax balances as at 31 December 2024 are measured at 25% (2023: 25%).

SOVEREIGN HEALTH CARE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2024

18 Creditors Due within one year

	Group 2024 £	Group 2023 £	Company 2024 £	Company 2023 £
Corporation tax	195,288	-	-	-
Taxation and social security	360,948	320,701	325,896	303,960
Trade creditors	390,036	644,067	146,170	494,387
	<u>946,272</u>	<u>964,768</u>	<u>472,066</u>	<u>798,347</u>

19 Retirement benefit schemes - Defined contribution schemes

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

The charge through the statement of comprehensive income in respect of defined contribution schemes was £139,289 (2023 - £131,570).

20 Retained earnings

	Group 2024 £	Group 2023 £	Company 2024 £	Company 2023 £
At beginning of year	77,425,448	76,321,125	76,618,935	75,448,740
Surplus on income and expenditure	2,784,850	1,104,323	3,296,579	1,170,195
At end of year	<u>80,210,298</u>	<u>77,425,448</u>	<u>79,915,514</u>	<u>76,618,935</u>

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:

	2024 £	2023 £
Within one year	124,069	123,614
Between two and five years	450,504	454,923
	<u>574,573</u>	<u>578,537</u>

22 Commitments and contingencies

The group had no contractual commitments as at 31 December 2024 (2023: £250,000).