



**SOVEREIGN HEALTH CARE**  
**(AN INCORPORATED COMPANY LIMITED BY GUARANTEE)**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

Company Registration No. 00085588 (England and Wales)

Established 1873

## **SOVEREIGN HEALTH CARE DIRECTORS AND ADVISERS**

<b>Directors</b>	C. M. Hudson – Chairman S. M. Cummings – Vice Chairman Dr. R. E. Dugdale – Senior Independent Director M. S. Bower R. S. Piper N. J. Stewart (Appointed 1 October 2019) J. C. Fortune S. R. Davies
<b>Secretary</b>	N. J. Stewart
<b>Chief executive</b>	R. S. Piper
<b>Life members</b>	E. Bentham G. A. Clarkson J. L. Hellawell D. J. Lewis F. L. Morgan M. Austin D. Child
<b>Company number</b>	00085588
<b>Registered office</b>	Royal Standard House 26 Manningham Lane Bradford BD1 3DN
<b>Registered Auditors</b>	BDO LLP 55 Baker Street London W1U 7EU
<b>Bankers</b>	Svenska Handelsbanken AB 1 <sup>st</sup> Floor Centre of Excellence Hope Park Bradford BD5 8HH
<b>Solicitors</b>	Gordons LLP Piccadilly House 8 Duke Street Bradford BD1 3QX
<b>Investment managers</b>	Torevell & Partners 5 Oxford Court Manchester M2 3WQ
<b>Actuarial Function Holder</b>	R. S. Piper (shared) N. J. Stewart (shared)

# SOVEREIGN HEALTH CARE

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**SOVEREIGN HEALTH CARE**  
**CHAIRMAN'S STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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I am pleased to report that Sovereign Health Care has once again delivered a successful year over the past 12 months, despite challenges on several fronts. The company remains in a strong financial position and is well equipped to continue to serve our customers and support health and wellbeing through our Community Program.

Despite the uncertainty of Brexit and a fluctuating global economic picture over the course of 2019, our investment performance recovered from the loss experienced in 2018, with our reserves and invested assets standing at £68m at year end.

Sovereign's financial strength ensured we had the ability to support health and wellbeing in our region with our Community Program making donations totalling £855k. Our principle aim is to positively touch people's lives. This is achieved through a wide range of donations, from a few hundred pounds to community initiatives, to the significant donation we made to Leeds Cares, the charity which works with Leeds Teaching Hospitals to improve care and wellbeing across Yorkshire and beyond. We supported over 200 different causes during the year, and continue to be particularly proud of our support to seven Yorkshire NHS trusts through hospital grants, nurses training grants and donations in response to specific requests.

That same financial strength enabled us to continue to invest in our IT infrastructure in 2019, and we commenced an 18 month project that will expand our customers' choice in how they interact with us, while at the same time delivering efficiencies in our operating model. Our business model is reliant on strong corporate governance and in the latter part of the year we began the recruitment of three new non-executive directors. This will allow continuity as existing non-executive directors transition from the Board over the next 24 months.

We are mindful that we are custodians, not owners, of Sovereign Health Care, and retaining our ethical, cultural and philanthropic approach to business remains a core value to us. Our trade body, the Association of Financial Mutuals, has updated its corporate governance code and we comply with its six principles in a manner that adds value to the Sovereign business model.

In closing, I thank my fellow Board Directors, our Senior Management Team, led by Chief Executive Russ Piper, and every member of staff for their contribution in making Sovereign Health Care the successful business it is.



**C. M. Hudson - Chairman**  
**Director**  
**24 June 2020**

**SOVEREIGN HEALTH CARE**  
**CHIEF EXECUTIVE'S REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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2019 was a year of contrasts for our business. We delivered positive outcomes in sales growth in relation to customer numbers and further development of our IT systems while managing an unprecedented increase in cash plan claims. At the same time, we continued to achieve our key aim of supporting our customers and the local community.

Even after considering some accounting changes and restatement of figures, our claims were almost £400k higher than the previous 12 months, with total claims incurred of £7.8m, demonstrating how well used our cash plans were for our loyal customers. Our cash plans are of course designed to be used; however, in some areas, changing customer behaviour, medical inflation and other factors placed the business operating model under real pressure.

Fortunately, Sovereign Health Care enjoys an enviable financial position, through years of prudent financial and investment management. As a result, we are well-placed to manage these situations and ensure we can continue to give customers value for money and offer support to communities through our Community Program. In 2019, we donated £855k to community initiatives and NHS Trusts, demonstrating our ongoing commitment to assisting our chosen partners in making a real difference to people's lives.

Customer recruitment over the course of the year was once again delivered by our own field and head office teams, and their performance was solid and consistent as ever. The continuity of our staff is a key ingredient of our new business success, as is allowing customers to make informed choices when purchasing the products and services that we offer.

2019 also saw us launch two new initiatives to enhance our service offering to customers. Firstly, we used our secure portal to give customers access to Sovereign Perks, a discount shopping platform offering a wide range of goods and services. Second, in September 2019 we introduced GP24, allowing our customers GP consultations via telephone and online platforms. We see this additional service as giving valuable support to customers who may have difficulties in accessing their own GP on occasions. The aim is to support people's wellbeing regardless of whether help is accessed through the NHS or other means.

We continue to monitor our customers' experience when dealing with us. Our annual customer survey again suggested that we often exceed expectations when interacting with them, but it is essential we continue the never-ending journey of improving their experience. To this end, our IT project designed to deliver more choice to customers continued in 2019 and I expect it to generate further benefits in the months ahead.

Dignity, respect and treating each other as we wish to be treated is as important as our overall business results. The way in which we interact with each other as colleagues, customers and other stakeholders is essential for our future and I was delighted the Board made a commitment to our Culture and Values initiative which commenced during the year and will complete in 2020.

The business continues to be well-placed in both its financial position and in making a positive difference to the lives it touches, and I thank all my colleagues for their contribution over the last year.



**R. S. Piper – Chief Executive  
Director  
24 June 2020**

**SOVEREIGN HEALTH CARE**  
**STRATEGIC REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors present the strategic report and financial statements for the year ended 31 December 2019.

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Premium Income	10,910,506	10,978,214
Other Technical Income	57,265	66,557
Claims	(7,837,938)	(7,256,744)
Operating Expenses	<u>(3,346,691)</u>	<u>(4,149,744)</u>
Net Result	(216,858)	(361,717)
Investment gain/(loss)	8,067,116	(3,810,746)
Charitable Donations	(855,493)	(674,907)
Taxation	<u>(203,522)</u>	<u>566,475</u>
Retained result for the year	<u>6,791,243</u>	<u>(4,280,895)</u>
Retained Reserves at 31 December	<u><u>67,900,125</u></u>	<u><u>61,108,882</u></u>

The Directors are confident that the company has adequate resources and a sustainable business model to continue as a going concern for the foreseeable future. Specific comment on the results for the year are contained in the reports from the Chairman and Chief Executive.

**Key performance indicators (KPI)**

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

	<b>2019</b>	<b>2018</b>
Earned Premium (Reduction/Growth)	£(67,708)	£214,496
Underwriting results (technical income less claims)	£3,129,833	£3,592,069
Operational expenses relative to Earned Premium	31%	33%
Surplus/(deficit) on ordinary activities after taxation	£6,791,243	£(4,280,895)

The Board are happy with performance against all KPIs.

During 2019 the Board are of the opinion the results recorded against all these areas were either met or exceeded target and are aligned to the long term strategy of the company. Earned premium has reduced however within agreed budget, and in line with the product review cycle. Underwriting results have declined compared to prior year; however, this is wholly driven by the high claims experience in 2019. The introduction of the online portal has made claiming easier and quicker for our customers. Whilst this may have impacted the claims paid in the year, the Board believes this demonstrates the usability of the products offered.

Despite taking profits from the collective funds in 2019 plus the uncertainty surrounding Brexit, the value of investments rose during the year from £48.4m in December 2018 to £50.2m in December 2019, representing capital growth of over 15%. The collective funds generated dividend income of over £1.45m, which was higher than prior year at £1.41m. Refer to notes 9 and 15.

Key performance indicators are reviewed within the sub groups on a regular basis. The ongoing regulatory reporting requirements was were successfully provided to the appropriate authorities.

**Business environment**

Global stock markets ended the year on a positive note helped by a reduction in US/China trade tensions. The FTSE 100 index ended the year at 7,542, within 5% of its all-time high of 7,903 set in May 2018. In the UK, the unexpectedly decisive victory for the Conservatives meant the UK left the EU on 31 January 2020. Whilst the timetable for agreeing a new trade deal appears tight, the removal of short term political uncertainty had provided a boost to the UK shares. Sterling rallied against all major currencies with the Pound gaining 7.3% against the Dollar and 4.6% against the Euro over the last quarter.

Sovereign Health Care continues to focus in its local Bradford and West Yorkshire community, and nationally through corporate employer relationships. Our schemes are low cost, affordable and aim to offer value for money benefits to customers.

The cash plans are monthly renewable contracts allowing us to modify the benefits, premiums and terms of conditions subject to us giving customers a minimum of 30 days' notice. Claims for health care treatment can be submitted up to one year after the date of treatment.

**SOVEREIGN HEALTH CARE**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Strategy**

During the year the Board continued to focus on following the strategy laid out in the most recent review and confirmed that the following principles remain core to the business:

- To remain an independent company and provider of individual and company health care cash plans.
- To grow our customer numbers in a profitable manner.
- To be able to give between 5% and 10% of annual turnover each year in charitable donations from investment returns.
- To deliver value for money and useable products to its customers.
- To remain a low compliance risk to our regulators.

**Independence**

The company was founded as the Bradford District Hospital Fund in 1873 and successive management boards have reaffirmed the desire to remain as an independent provider. We continue to believe we can contribute more effectively to the lives of our customers and local communities by continuing to be a small focused company that remains in control of its destiny.

**Growth in a profitable manner**

We distribute the company's products through a variety of direct channels including our own field team on a non-advised basis only. Customers are given accurate and relevant information to enable them to make an informed choice to buy our products.

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

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

It is in our customers' best interests that on-going policy servicing, new product design and new routes to market are effective from both a cost and distribution view point. The long term sustainability of the business through growth, effective working practices and the development of technology will support cost effective policy servicing.

**Charitable giving**

As a private company limited by guarantee we have no shareholders and therefore trading surplus and investment income is shared between reinvestment into the company, strengthening our reserves and making charitable donations.

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

We aim to touch people's lives in a positive manner and as such will always consider special one-off requests for funds that enhance the lives of our local communities.

**Value for money products and customer satisfaction**

We continue to develop and distribute low cost, sustainable value for money products both in the individual and corporate markets. Our products are priced on a community basis where age and medical history makes no impact on premiums. Furthermore we make our current products available to new customers up to the age of 75 and in certain cases beyond this. It is important our products reflect the changes in society and the improved longevity. The products are designed to refund costs of everyday healthcare within specific limits, to enable schemes to be sustainable within pricing cycles, usually every three years.

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

**SOVEREIGN HEALTH CARE**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Low compliance risk to our regulators**

By default we are a low risk business due to the types of products and benefits offered. As the contracts are monthly renewable customers never face post sales barriers to cease their cash plan if they decide to change their mind.

We aim to ensure our compliance processes exceed our regulators requirements, but at the same time be cost effective and proportionate to the complexity of our business.

**Our values**

It is important that the values we aspire to align with our company strategy. These values are summarised as follows:

- To put customers at the centre of everything we do.
- To treat customers, suppliers, colleagues and prospective customers with dignity and respect.
- To provide sustainable products for the longer term that customers can regularly use, rather than products that are loss making, unclear and/or easy to sell.
- To be open, clear and concise with all communication both internal and external.
- To manage our finances to ensure we remain independent.
- Sound governance, compliance and risk appetite are embedded within our culture.

**Risk management**

The company's business strategy and risk appetite are closely aligned and have been reviewed and updated as part of our Solvency II process. Overall we are conscious that the business serves its customers and local community both through our commercial and charitable donations and it is important that the risk appetite reflects the importance of staying true to our origins.

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

Specific activity planned for 2020 includes the following:

- Continue to update our 'ORSA' (own risk solvency assessment) as part of the ongoing compliance with the new Solvency II regulatory regime.
- Review the delivery of the requirements of the Solvency II regulatory regime and continue to improve the efficiency of the process, including appointment of the Chief Actuarial Function (SMF20).
- Regularly review and update our risk register.
- Utilise the internal audit function to develop assurance over key external service providers and vital internal controls.

**SOVEREIGN HEALTH CARE**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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The principle risks and uncertainties relating to the Company relate to:

**Market Risks**

Movement in equity markets, interest rates, currency rates and other financial market movements can significantly influence the value of the company's investment portfolio.

The company's investment portfolio is focused on delivering medium to long term growth, whilst continuing to generate sufficient returns to enable the annual charitable giving to be maintained. The impacts of market shock is monitored, and specific capital is held to mitigate against the potential drop in market value of the invested portfolio. The Solvency II capital charge relating to market risk equates to £21.5m (2018: £18m). The coverage ratio of 297% remains well within the Group's risk appetite. Refer to the Solvency II Capital Position on page 10 and note 15, financial instruments, on pages 45 and 46.

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

**IT Risks**

As IT continues to play an ever increasing role in the delivery of the day to day operations of the business and its future strategy, the risk of IT failures become an increasing risk to the business in terms of lost productivity, data theft or loss. The largest IT risk the company faces relates to the ongoing investment in the development of the core IT systems to deliver an improved customer journey. This development, combined with the changes in data protection regulation, expose the Company to an increasing risk of data issues. All our IT infrastructure is located at specialised data centre for additional security and resilience. A business continuity plan including data backed up at a remote location and a workplace recovery site, is in place. Our IT infrastructure and application security and resilience is under constant review and is periodically test by an independent supplier. The Systems group of the Board meet regularly to ensure that the developments being undertaken are appropriately controlled and fit for purpose in order to manage the identified risks.

**Insurance Risk**

As a general insurer Sovereign writes short term monthly renewable contracts. These contracts individually and collectively present a relatively small financial risk when compared to the other principle risks noted below. However, as an insurer we do review, calculate and manage our potential insurance exposures and ensure that we hold sufficient capital in available cash in a mixture of immediately available, short term or longer term maturity deposits to ensure that sufficient cash will be available to meet the requirements of 12 months claims as they fall due. Refer to note 15, financial instruments, on pages 45 and 46.

Plans are priced on a community basis, utilising historical performance and claims data, with a number of additional assumptions built in the models. If policyholder behavior, healthcare costs or any of the other underlying base assumptions change there is a risk that premiums will not be sufficient to meet the claims made.

Claims loss ratios are monitored on an ongoing basis to identify any changes or trends sufficiently early to ensure that the products can be adjusted prior to the business being unduly affected.

**Regulation**

Regulation continues to develop and maintaining compliance is key to Sovereign. There is an increasingly complex regime of regulation with a number of bodies responsible for different elements of the rules which must be complied with.

We carefully monitor changes to the regulatory requirements, working with third party experts to review and understand specific areas and obtain appropriate benchmarks for implementation of new requirements.

**SOVEREIGN HEALTH CARE  
STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**Emerging Risks**

Emerging risks are risks which may develop or which already exist that are difficult to quantify but may have a high loss potential. The board considers the following risks as emerging:

**Financial Risks of Climate Change**

Climate change, and society’s response to it, presents many financial risks. Whilst the financial risk from climate change may crystallise in full over a longer time horizon, they are also becoming apparent now. Financial risks from climate change arise from two primary channels, or ‘risk factors’, physical and transition risk. After the PRA issued a supervisory statement in April 2019, the Board has considered the financial risks and the associated materiality. The potential physical risk for the group, increased underwriting due to a fluctuation in hospital stays triggered by weather conditions, is deemed to be limited. Claims trends are actively monitored on an ongoing basis to identify any significant change in claims experience which allows prices to be adjusted accordingly, with 30 days’ notice to the customer. The potential transition risk has been identified regarding the valuation of collective funds, and the underlying assets invested into sectors sensitive towards a low carbon economy. The Board have requested each fund manager provide a climate change statement for review alongside a sector analysis in order to perform stress testing, this is ongoing.

With risks, there are potential opportunities. The Group have concentrated efforts in defining a paperless claims journey for our customers, with the view to go live in the first half of 2020. The move away from paper reduces the Group’s carbon footprint in addition to realising operational cost efficiencies.

The appropriate director has been allocated the responsibility of managing the financial risks of climate change and their statement of responsibilities have been updated accordingly. These risks identified will be continually monitored across multiple sub groups including:

- Finance
- Audit and Risk
- Compliance and Governance

**Coronavirus Risk**

Coronavirus (COVID-19) is classed as a pandemic and affecting most countries, including the UK. The Directors have been monitoring the development of the impact of COVID 19 both directly on the Group’s business and indirectly through the development of government policy and advice. The main considerations are as follows:

<b>Operational</b>	The Directors have made the decision to implement aspects of the Group’s business continuity plan (BCP), specifically requiring staff at all levels and in all functions to work remotely wherever practicable. Communications within the Group are now almost wholly via email, telephone, video conference and messaging applications. The Group’s IT facilities are adequate to maintain operations on this basis for the foreseeable future. The Directors are mindful of the differing pressures on individual members of staff, and also of the fact that these pressures change as the position nationally and local develops. The Directors expect that operational changes will continue to be required as the position develops.
<b>Risks underwritten</b>	The Group underwrites the provision of a hospital benefit through the health care cash plans; this risk is mitigated by limiting the number of days that can be claimed in one benefit year. Additionally, the whole book of business is stressed under a pandemic scenario and the Group holds sufficient capital against the health catastrophe risk capital charge of £1.2m
<b>Investment portfolio</b>	As at the date of signing these financial statements the market value of the Group’s collective fund investment portfolio is 8% lower than as at the balance sheet date. The Directors do not view this as a permanent drop but continue to keep the position under close review. As part of the investment portfolio, the Group also holds a significant amount of the cash, £14m as at the date of signing these financial statements, the Directors are mindful that the credit and liquidity risk is likely to have increased and will continue to monitor closely.
<b>Policyholders</b>	In the event of recessive economic conditions, there will be customers and business partners of the Group who will suffer. The impact on the Group in the short term is likely to be in pressure on debt recovery and a reduction in premiums. Whilst general insurance is not necessarily seen as a discretionary cost, the provision of a health care cash plan is and may result in increased lapses, however conversely, will see a fall of claims incurred. The Directors maintain very close links with the market and will be able to make changes as necessary as the position develops.

**SOVEREIGN HEALTH CARE  
STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**Coronavirus Risk (continued)**

<b>Regulators and Forecasts</b>	<p>The Directors will be modelling stressed future scenarios to assess the Group's compliance with regulatory capital requirements in the context of the risk appetite determined by the Board. The Directors recognise that as the foreseeable scenarios change, decisions may need to be reviewed and changed in line with the Group's level of activity.</p> <p>Furthermore, given the current stock market's volatility, the group has completed a sensitivity analysis on the investments and the impact on its solvency position is as follows:</p> <table border="1" data-bbox="470 600 1449 875"> <thead> <tr> <th>Solvency Position</th> <th>December 2018</th> <th>December 2019</th> <th>35% drop in equities</th> <th>30% drop in equities</th> <th>25% drop in equities</th> </tr> <tr> <td></td> <td>£000's</td> <td>£000's</td> <td>£000's</td> <td>£000's</td> <td>£000's</td> </tr> </thead> <tbody> <tr> <td>SCR</td> <td>19,233</td> <td>22,794</td> <td>15,445</td> <td>16,491</td> <td>17,538</td> </tr> <tr> <td>MCR</td> <td>4,808</td> <td>5,699</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Own Funds</td> <td>59,306</td> <td>67,759</td> <td>51,245</td> <td>53,604</td> <td>55,963</td> </tr> <tr> <td>Solvency Ratio</td> <td>308%</td> <td>297%</td> <td>332%</td> <td>325%</td> <td>319%</td> </tr> </tbody> </table>	Solvency Position	December 2018	December 2019	35% drop in equities	30% drop in equities	25% drop in equities		£000's	£000's	£000's	£000's	£000's	SCR	19,233	22,794	15,445	16,491	17,538	MCR	4,808	5,699				Own Funds	59,306	67,759	51,245	53,604	55,963	Solvency Ratio	308%	297%	332%	325%	319%
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<b>Going Concern</b>	<p>As at the date of signing these financial statements, the Directors' forecasts up to 31 December 2021 indicate that the Group will be able to maintain liquidity and a surplus over its Solvency Capital requirement and will therefore be able to continue to trade as a going concern. The Directors are constantly monitoring the position in case any extreme scenarios become more likely than is judged to be the case currently.</p>																																				

**Corporate governance**

It is important that our corporate governance structure is fit for purpose, appropriate for our business and also reflects the desire to remain an independent cash plan provider serving our chosen communities.

Our main board consists of two executive and six non-executive directors with a wide range of backgrounds. Experience within our board includes health care, the charitable sector, IT, law, HR, accountancy, banking and insurance broking and we firmly believe the board consists of appropriate skills and experience. During the year one member of the Board resigned and we took the opportunity to appoint a female executive director in light of the desire to ensure the Board continues to have the skills and expertise necessary to effectively challenge the business. Of the current executive group and board there are six male and two female Board members. The ratio of male/female board members has changed over the years when directors have reached retirement age or left the business. The board continues with the policy of recruiting the most appropriate skill set regardless of gender. All board members are considered for reappointment every three years and going forward all newly appointed Non-Executive Directors will be limited to serving a 9 year term.

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.

**SOVEREIGN HEALTH CARE**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Audit and Risk**

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

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

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

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

**Finance and Remuneration**

The finance and remuneration sub group consists of three non-executives and two executive directors, meeting to review and discuss the following:

- Monthly financial reports
- Unexpected costs outside approved budget
- Investment strategy and performance
- Auditor performance – both internal and external
- Individual Capital Assessment/Own Risk Solvency Assessment
- Regulatory returns (including Solvency II capital requirement projections)
- Executive remuneration (Executives are not included for this item)

This sub group will produce specific proposals for main board sign off and when required can authorise 'outside of budget' expenditure up to £25,000. Additionally, when time critical this group can also authorise the purchase and/or disposal of £1m of investments.

In extreme circumstances that are time critical, and subject to the CEO and Chair's agreement, this sub group can make decisions on the overall portfolio. In this unlikely event, the executive directors will have tried to speak with each non- executive before the decision is made. Funds will be held in cash with Cofunds until the board agree the next steps.

**Compliance and Governance**

The compliance and governance sub group consists of three non-executives and two executive directors, meeting to review and discuss the following:

- Compliance and governance controls
- The 'ORSA' process
- Regulatory developments
- Complaints monitoring
- Regulatory reporting

This sub group will produce specific proposals for the main board and when required authorise urgent action to ensure on-going compliance with all regulatory requirements.

**SOVEREIGN HEALTH CARE**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Sales and Marketing**

The sales and marketing sub group consists of three non-executives and two executive directors plus the Head of Sales and Marketing, meeting to review and discuss the following:

- Sales performance
- Sales and marketing strategy
- Sponsorships
- Product development
- Distribution channels
- Treating customers fairly
- Sales and marketing budget

This sub group will produce specific proposals for main board sign off and when required authorise priority/time limited activities that support growth.

The sub group can make financial decisions up to £25,000, although these will additionally be ratified by the main board.

For bespoke product opportunities where time does not allow a full board product sign off, this group can authorise the product design for up to 5,000 policyholders.

**Systems and IT**

Given the scale of investments and the core reliance on the infrastructure and systems operating the Board felt it appropriate to create a new sub-group in 2016 to monitor and review the ongoing and future investments made in the IT underlying the successful operation of the business.

The systems sub group includes two executive, two non-executive directors, the Head of IT and the Marketing Manager.

This group review and discuss the following;

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

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

**Community Funding**

The community funding sub group includes one executive and two non-executive plus the Marketing Manager from Sovereign Health Care and the Charitable Co-ordinator, who reports directly to the Chief Executive.

This group review and discuss the following:

- Charitable strategy
- Donation requests
- Recommendations to the Board
- Annual standing lists
- PR associated with the charitable activity

This sub group makes specific proposals for approval by the Board and has the authority to make small donations, less than £1,000 as required.

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

**SOVEREIGN HEALTH CARE**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Solvency II Capital Position**

Our capital surplus is the amount of capital resources (referred to as Own Funds) that are held in excess of its capital requirement. The calculation of the capital resources and requirement is governed by the Solvency II regulatory regime. Under Solvency II, every insurer is required to identify its key risks – e.g. that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. The capital required to withstand these outcomes is the Solvency Capital Requirement (SCR). The SCR is calibrated so that the likelihood of a loss being greater than the SCR in one year is less than 1 in 200. Around 90% of the SCR relates to Own Funds invested in order to generate both income and capital growth that support the charitable activities and underlying financial strength.

The company strongly capitalised with a Solvency II capital surplus of £45m (2018: £40.1m) representing a solvency coverage ratio of 297% (2018: 308%). Capital requirements have increased by £3.6m as a direct result of the increase in value of the investment portfolio. The capital charge relating to market risk equates to £21.5m (2018: £18m).

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Own Funds – Group	67,754,923	59,305,732
Solvency Capital Requirement	(22,794,053)	(19,232,827)
Solvency II Capital Surplus	<u>44,960,869</u>	<u>40,072,905</u>
<b>Solvency Cover Ratio</b>	<u>297%</u>	<u>308%</u>

**Board evaluation**

The company recognises that the strength of the board is maintained by having a diverse range of professionals some of whom no longer work full time. There are occasions when directors' other commitments may cause them to fail to attend a meeting, but they are expected to ensure sufficient time is allocated to their role to demonstrate the required level of governance. In the year ending 2019, average attendance at all board meetings and sub groups was 89%.

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

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

**Results**

The consolidated statement of income and retained earnings for the year are set out on pages 24 to 25.

It is proposed that the retained profit of £6,791,243, representing the surplus on activities after tax is transferred to the group's reserves, giving a retained reserve of £67,900,125.

**Investments and tangible assets**

The changes in fixed assets and investments during the year are explained in notes 13 and 14 to the financial statements.

**Market value of land and buildings**

In the opinion of the directors the land and building has a market value of £755,000; this valuation has been incorporated into the accounts. The property was revalued on 15 March 2019 by Eddisons Taylors.

# SOVEREIGN HEALTH CARE

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### **Compliance with the AFM Corporate Governance Code**

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

The AFM Corporate Governance Code took effect from 1 January 2019 which sets out a series of principles for good corporate governance, that members “apply and explain” within their business. The Code draws on expectations of directors from a range of sources, including the relevant legislation, regulatory rules and internationally recognised standards.

Sovereign Health Care adopted the AFM Corporate Governance Code as of 1 January 2019 in an appropriate manner for the size and complexity of our organisation. The statements below set out the principles and how Sovereign Health Care have applied them in the year:

- **Purpose and Leadership**

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

Sovereign Health Care has three simple purposes:

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

To support these purposes, it is essential that all staff understand the company goals and objectives, how this aligns with a unique set of cultures and values and feel they can buy into and own these principles. To achieve this the group commenced a cultures and values change program in 2019 and is ongoing throughout 2020. The purpose of this program is to move delivery of our products from transacting efficiently to interacting with empathy without losing the quality of service. The way we interact with each other as colleagues, customers and other stakeholders is essential for our future and is integral to our company strategy. Phase 1 of the change program was completed in 2019. Phase 2 and 3 will include activities to embed the values within the company and development of a HR strategy to reflect the values in the recruitment and appraisal process.

The business objectives are detailed in the Strategic report on pages 4 and 5.

- **Board Composition**

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

Sovereign is a not for profit company limited by guarantee, and not a true mutual so its governance arrangements are not the same as a Mutual Society, and in some cases need to be brought up to date in a changing regulatory environment. At present the Chair of the Company does not meet the independent requirement, however in discussion with our regulator the PRA, we have agreed a plan to address this in 2021 leading to a fully independent Board in 2022. The rationale for this timeframe is that too much change in a short period of time is too big and unnecessary risk to the company, especially in light of the philanthropic nature of the company. Sovereign is proud of its history and seeks to refresh the Board with likeminded individuals who see value in supporting local communities.

The Board recognise that it is essential that it has the right mix of skills and knowledge that support the business model and the philanthropic approach to health and wellbeing and the communities we support. The Board has a mix of professionals covering accountancy, audit, business strategy, HR, Legal and medical, as well as the requisite experience of financial services and the insurance industry.

After a vigorous recruitment process, the Board appointed 3 new Non-Executive Directors (NEDs) at the beginning of 2020. The new NEDs undertook an induction program to the company and have commenced the knowledge transfer and handover process. The Board felt it prudent to amend the Articles of Association to reflect newly appointed NEDs would only serve a 9 year maximum term, ensuring independent challenge and effective governance. Directors are elected by rotation every three years.

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

**SOVEREIGN HEALTH CARE**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Compliance with the AFM Corporate Governance Code (continued)**

- **Director Responsibilities**

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

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

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

Management information including financials, risk management, business trends are provided to sub groups and the Board enabling them to make informed decision making.

- **Opportunity And Risk**

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

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

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

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

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

The risk matrix is reviewed by the appropriate sub groups with information presented as a RAG chart, with descriptions to support the current status presented.

- **Remuneration**

The Board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.

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

In 2017, the Board commissioned a piece of work to consider remuneration levels across the business including Executive Directors. In line with Article 275 under Solvency II, pay systems must be relevant and proportionate to the business model and the ongoing risks. The Board unanimously agreed, the maximum bonus payable would be reduced by 58% and would continue to be assessed on performance against the company's strategic goals and operational KPIs.

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

**SOVEREIGN HEALTH CARE  
STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Compliance with the AFM Corporate Governance Code (continued)**

- **Stakeholder Relations and Engage**

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

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

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

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

Furthermore, the cultures and values change program initiated in 2019, involves employees at all levels by way of workshops and discussion groups. The continued involvement of staff is seen as crucial to the success of the program.

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

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

In accordance with Section 172 of the Companies Act, a Director requires to take into consideration the interests of stakeholders and other matters in their decision making. A Director of a company must act in a way they consider, in good faith, 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.

**SOVEREIGN HEALTH CARE  
STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

Key Board decisions relating to Section 172 made in year are set out below:

<b>Significant event/decision</b>	<b>Key Section 172 matter(s) affected</b>	<b>Actions and Impact</b>
Customer survey and results	Customers	Customer survey sent to over 22,000 customers, seeking feedback on products and services. This active engagement with customers ensures continual improvement on standards and business conduct. See reference to paperless claims journey below.
Culture and Values Change Programme	Employees, customers, and suppliers	The Board agreed in the year to fund a cultures and values change programme seeking to improve the way we interact with each other as colleagues, customers and other stakeholders. This is essential for our future and is integral to our company strategy. Engagement with staff including the Board, occurred through numerous workshops and will continue into 2020 including a staff survey.
Paperless Claims Journey	Customers and environment	Feedback from customers survey suggested areas for development including the reduction of paper communications.  Feedback has been incorporated into the development of a paperless claims journey to send communications electronically via the customer portal. This will inevitably reduce the company’s carbon footprint and create cost efficiencies, whilst fulfilling the customer needs and wants.
Donations	Community	Donations of £855k agreed by the Board and paid to local communities or charitable initiatives with a health and wellbeing focus, aligning with company strategy.

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

The discussions and decision making at these meetings, allow informed judgement to ensure the long term sustainability of the company business model, ensure stakeholder engagement where appropriate and provide oversight on the day to day running of the business. This is also evidenced by specific activities noted above and on pages 12, 13 and 14 of the Strategic Report.

On behalf of the board



**C. M. Hudson – Chairman  
Director  
24 June 2020**

# SOVEREIGN HEALTH CARE

## DIRECTOR'S REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2019

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The directors present their report and financial statements for the year ended 31 December 2019.

#### Principal activities

Sovereign Health Care provides renewable cash plan products to its customers either on a direct to consumer basis, through employer paid schemes or through employer facilitated employee marketing.

#### Directors

The following directors have held office since 1 January 2019:

C. M. Hudson – Chairman  
S. M. Cummings – Vice Chairman  
Dr. R. E. Dugdale – Senior Independent Director  
M. S. Bower  
R. S. Piper  
S. R. Davies  
J. C. Fortune  
N. J. Stewart (Appointed 1 October 2019)

The following directors have held office since 1 January 2020 and were present at the date of signing of the annual report and financial statements for the year ending 31 December 2019:

A.D.G. Dawson (Appointed 1 January 2020)  
K. Hinds (Appointed 1 January 2020)  
S. M. Sedgwick (Appointed 1 January 2020)

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

#### Political and charitable contributions

The group does not make any political contributions. During the year the company made charitable contributions of £855,493 (2018: £674,907).

#### Employee involvement

The group's policy is to consult and discuss with employees, at meetings, matters likely to affect employees' interests.

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

#### Disabled persons

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

#### Directors' reporting disclosures

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

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

#### Statement of disclosure of information to auditors

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

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

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

**SOVEREIGN HEALTH CARE**  
**DIRECTOR'S REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**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 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 income and retained earnings for that period. In preparing each of the Group and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

**On behalf of the board**



**C. M. Hudson - Chairman**  
**Director**  
**24 June 2020**

## **SOVEREIGN HEALTH CARE**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **Opinion**

We have audited the financial statements of Sovereign Health Care (the 'company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise consolidated statement of income and retained earnings, the consolidated and the company statements of change in equity, the consolidated and the company statement of financial position, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's surplus for the year then ended;
- the group and the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

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

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

## SOVEREIGN HEALTH CARE

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2019

#### Key audit matters

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

Key audit matter	How we addressed the key audit matter in the audit
<p data-bbox="124 591 785 620"><b>Insurance provisions (claims incurred but not reported ("IBNR")) - £742,881</b></p> <p data-bbox="124 620 785 672"><i>Refer to the accounting policy in note 2.4 and 3 further information given in note 17.</i></p> <p data-bbox="124 696 785 801">Insurance provisions includes liabilities for claims incurred but not reported (IBNR) as at 31 December 2019. The process of recognising such claims is inherently complex and involves judgements to be made by management.</p> <p data-bbox="124 826 785 981">Management's estimation technique is to make projections for claims provisions based on historical claims experience and hence there is a risk of estimate uncertainties over the use of historic data and the degree to which this will accurately reflect actual claims incurred as at the statement of financial position date.</p>	<p data-bbox="810 620 1474 696">We obtained detailed understanding of the methodology adopted by management and the key assumptions underpinning the calculation.</p> <p data-bbox="810 721 1474 826">We performed a retrospective review of the prior year estimate to consider the appropriateness of management's estimate in the prior year. The results of which were used to consider the suitability of the provisioning process for the current year.</p> <p data-bbox="810 851 1474 927">We tested the arithmetical accuracy of the IBNR model. We have also checked the inputs into the model by agreeing the amount of historic claims payments to the trial balance.</p> <p data-bbox="810 952 1474 1084">We tested the validity of the historical data used by management by a performing reconciliation of data used in management's estimation of claims paid during the year to raw claims data from the claim administrative system to check the accuracy of the details recorded.</p> <p data-bbox="810 1108 1474 1184">We used our testing results and knowledge of the entity and the industry to critically review management key assumptions, such as estimated claims value.</p> <p data-bbox="810 1209 1474 1285">We compared the claims provision in the year end statement of financial position to post year end claims payments, by tracing payments through to bank statement.</p> <p data-bbox="810 1310 1474 1366">Key observation: We did not identify any indicators to suggest that the IBNR provision is materially misstated.</p>

**SOVEREIGN HEALTH CARE**

**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**Key audit matters (continued)**

<b>Key audit matter</b>	<b>How we addressed the key audit matter in the audit</b>
<p><b>Valuation of freehold land and buildings - £755,000</b></p> <p><i>Refer to the accounting policy in note 2.7 and further information given in note 13.</i></p> <p>The financial statements include freehold land and buildings held at fair value, which represents the estimated market value of this asset. Management has sought advice from an external valuer to assist them in their determination of the fair value of the Group and the company property. The fair value or property necessarily includes judgements and estimates to be made and is subject to management bias which could be indicative of fraud risk. As such there is a risk of material misstatement in the valuation of the property.</p>	<p>We evaluated the competence, capability and objectivity of management’s experts.</p> <p>We received the valuation report prepared by Management’s expert on 18 March 2019 together with details of the update prepared on 21 January 2020. We reviewed the appropriateness of the assumptions used by management with respect to the valuation by considering publically available information on the local property market.</p> <p>We also considered publically available rental yields and other relevant sources of information against the information used by management’s experts.</p> <p>We did not identify any indicators to suggest that the valuation of freehold land and buildings is materially misstated.</p>
<p><b>Post balance sheet event</b></p> <p><i>Refer to further information given in notes 24.</i></p> <p>The novel coronavirus (Covid-19) reached pandemic status in the post balance sheet period. The full potential impact of this pandemic has wide reaching socio-economic implications that will impact the group, however the full range of possible effects is unknown.</p> <p>Management have performed an assessment of the potential impact of Covid-19 on the group’s operations. This has required management to make judgements as to the reasonably foreseeable impacts of Covid-19 which has included the stress-testing of forecast scenarios. In making those judgements, management has taken into account the significant uncertainty as to the impact both on the wider economy and on the markets in which the group trades.</p> <p>The Directors have also considered the potential impact of Covid-19 in the context of the group’s maintenance of a satisfactory surplus over its regulatory Solvency Capital Requirement.</p> <p>Due to the potential significance of this event we consider this to be a key audit matter.</p>	<p>Our audit work in respect of post balance sheet event included:</p> <ul style="list-style-type: none"> <li>•Using our understanding of the group’s business and the wider market we critically reviewed management’s assessment of the potential impact of the Covid-19 pandemic.</li> <li>•Comparing the stress tests applied by Management to their forecasts and considering the appropriateness of the scenarios evaluated and potential impact to our understanding of emerging risks and current market norms in this respect</li> <li>•Assessing the transparency and reasonableness of the disclosures in relation to Covid-19 as a post balance sheet event.</li> </ul> <p>Key observations: We considered management’s disclosure of this matter in the financial statements to be reasonable. Our key observations in respect of going concern are set out in the conclusions related to going concern section of our audit report.</p>

## SOVEREIGN HEALTH CARE

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2019

#### Our application of materiality

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

<b>Overall financial statements materiality</b>	Group (consolidated) materiality £1,355,000 (PY: £1,237,000) Company materiality £1,344,000 (PY: £1,209,000)
<b>Basis of materiality</b>	Group and the company materiality is based on 2% of Reserves.  In establishing an appropriate benchmark to use, we considered various financial measures including those used by the management in their internal reporting, other relevant measures such as regulatory capital surplus, and industry practice. Reserves were considered the most appropriate metric given the nature of the business. The company is authorised by the Prudential Regulation Authority and is subject to insurance solvency regulation which specify the minimum amount of capital that must be held which is largely driven by the net asset position.
<b>Performance materiality</b>	Group (consolidated) - £880,000 (PY: £804,000) Company - £873,000 (PY: £768,000)  Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.  Performance materiality represents 65% of the Group materiality and the company materiality. This has been assessed on criteria such as complexity and the level of controls operated in the company.
<b>Threshold for reporting misstatements to the Audit Committee</b>	Group (consolidated) £40,000 (PY:£37,000) Company £40,000 (PY:£36,000)  Although misstatements below this threshold are also reported where the nature of the misstatement warrants reporting, such as where items are clearly wrong or they are indicative of fraud.
<b>Specific Materiality</b>	To ensure that adequate audit consideration is given to items that impact the income statement alone (such as premiums, claims paid and operating expenses we applied a specific materiality when testing these items. Specific materiality for the Group and the company was £141,000 (based on 1.3% of gross written premiums).

## SOVEREIGN HEALTH CARE

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

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#### **An overview of the scope of our audit**

The Group principally providing health cash plans in the UK. The scope of the audit was the consolidated Group. Our approach to the audit is risk based, with our audit work being tailored to ensure that sufficient assurance was gained for us to be able to give an opinion on the financial statements as a whole. Specific audit procedures were carried out on all risk areas identified, including the key audit matters detailed above, and on all material balances and classes of transactions. The audit team performed all aspects of the audit. The Group includes 1 significant component (2018:1) and 2 (2018: 2) insignificant components. We performed a full scope audit on the significant component using the materiality stated above., Although not required for Group reporting, we performed full scope audits of the insignificant components.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We consider the primary fraud risks to be around the valuation of freehold land and building and provision for outstanding claims. We also addressed the risk of management override of internal controls and the risk of fraud in revenue recognition, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

#### ***How the audit was considered capable of detecting irregularities, including fraud***

We identified areas of laws and regulations that could reasonably be expected to have a material impact on the financial statements from our sector experience and through discussion with the directors and other management, as required by the auditing standards. We focused on laws and regulations that could give rise to a material misstatement in the financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the PRA and FCA.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

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

#### **Other information**

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

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

We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## SOVEREIGN HEALTH CARE

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOVEREIGN HEALTH CARE (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

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#### Matters on which we are required to report by exception

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

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

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

#### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### Auditor's responsibilities for the audit of the financial statements

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

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

#### Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the members to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 December 2018 to 31 December 2019.

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

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

#### Use of our report

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



#### John Perry (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor  
United Kingdom  
24 June 2020

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

## SOVEREIGN HEALTH CARE

### CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	£	2019 £	£	2018 £
<b>Technical Account - General Business</b>					
Gross premiums written		10,861,905		10,943,887	
Change in gross provisions for unearned premiums	17	48,601		34,327	
<b>Net premiums earned</b>	4		10,910,506		10,978,214
<b>Other technical income</b>					
Commissions received			57,265		66,557
Allocated investment returned transferred from non technical account	9		1,564,580		1,488,077
			12,532,351		12,532,848
Total claims incurred		(7,841,897)		(7,251,414)	
Change in the gross provision for claims	17	3,959		(5,330)	
<b>Claims incurred</b>	5		(7,837,938)		(7,256,744)
<b>Net operating expenses</b>	6		(3,347,512)		(4,148,025)
<b>Change in other provisions</b>	19		821		(1,719)
			(11,184,629)		(11,406,488)
Balance on the technical account for general business			1,347,722		1,126,360

The notes on pages 30 to 49 form an integral part of the financial statements.

**SOVEREIGN HEALTH CARE**  
**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	2019 £	2018 £
<b>Non-technical Account</b>			
<b>Balance on the technical account for general business</b>		1,347,722	1,126,360
Investment Income	9	4,646,061	1,281,959
Investment return allocated to technical account		(1,564,580)	(1,488,077)
Unrealised gains/(losses) on investments		3,421,055	(5,092,705)
Charitable donation		(855,493)	(674,907)
<b>Surplus/(deficit) on ordinary activities before taxation</b>		6,994,765	(4,847,370)
Tax on ordinary activities	10	(203,522)	566,475
<b>Surplus/(deficit) on ordinary activities after taxation</b>		6,791,243	(4,280,895)
<b>Retained earnings at 1 January</b>		61,108,882	65,389,777
<b>Retained earnings at 31 December</b>		67,900,125	61,108,882

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

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

The notes on pages 30 to 49 form an integral part of the financial statements.

**Statement of Comprehensive Income**

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

**SOVEREIGN HEALTH CARE**  
**CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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<b>Group</b>	<b>Profit and Loss reserves £</b>
At 1 January 2018	65,389,777
<b>Year ended 31 December 2018:</b>	
Deficit for the year	<u>(4,280,895)</u>
<b>Balance at 31 December 2018</b>	61,108,882
<b>Year ended 31 December 2019:</b>	
Surplus for the year	<u>6,791,243</u>
<b>Balance at 31 December 2019</b>	<u><u>67,900,125</u></u>
<b>Company</b>	
At 1 January 2018	64,797,942
<b>Year ended 31 December 2018:</b>	
Deficit for the year	<u>(4,343,518)</u>
<b>Balance at 31 December 2018</b>	60,454,424
<b>Year ended 31 December 2019:</b>	
Surplus for the year	<u>6,726,129</u>
<b>Balance at 31 December 2019</b>	<u><u>67,180,553</u></u>

**SOVEREIGN HEALTH CARE**  
**STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Group		Company	
		2019	2018	2019	2018
		£	£	£	£
<b>ASSETS</b>					
<b>Investments</b>					
Intangible assets	12	-	5,250	-	5,250
Investment in subsidiaries	14	-	-	10,100	10,100
Investments	14	50,201,710	48,383,614	50,201,710	48,383,614
		<u>50,201,710</u>	<u>48,388,864</u>	<u>50,211,810</u>	<u>48,398,964</u>
<b>Debtors</b>					
Debtors arising out of direct insurance operations		555,047	544,648	527,528	515,013
Other Debtors	16	1,265	571,328	209,361	757,953
		<u>556,312</u>	<u>1,115,976</u>	<u>736,889</u>	<u>1,272,966</u>
<b>Other Assets</b>					
Tangible assets	13	833,913	850,067	833,913	850,067
Cash at bank and in hand		18,696,259	12,792,730	17,636,542	11,904,852
		<u>19,530,172</u>	<u>13,642,797</u>	<u>18,470,455</u>	<u>12,754,919</u>
<b>Prepayments and accrued income</b>		<u>350,128</u>	<u>308,721</u>	<u>345,798</u>	<u>304,122</u>
<b>Total Assets</b>		<u><b>70,638,322</b></u>	<u><b>63,456,358</b></u>	<u><b>69,764,952</b></u>	<u><b>62,730,971</b></u>

**SOVEREIGN HEALTH CARE**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Group		Company	
		2019	2018	2019	2018
		£	£	£	£
<b>LIABILITIES</b>					
<b>Reserves</b>					
Reserves	21	67,900,125	61,108,882	67,180,553	60,454,424
		<u>67,900,125</u>	<u>61,108,882</u>	<u>67,180,553</u>	<u>60,454,424</u>
<b>Technical provisions</b>					
Provision for unearned premiums	17	500,350	548,951	500,350	542,358
Provision for claims outstanding	17	742,881	765,831	742,881	765,831
Provision for claims handling expenses	17	18,991	-	18,991	-
		<u>1,262,222</u>	<u>1,314,782</u>	<u>1,262,222</u>	<u>1,308,189</u>
<b>Provision for other risk and charges</b>	<b>19</b>	<b>108,619</b>	<b>109,440</b>	<b>108,619</b>	<b>109,440</b>
<b>Creditors</b>					
Other creditors including taxation and social security	18	866,405	445,252	757,306	412,472
<b>Accruals and Deferred Income</b>		<u>500,951</u>	<u>478,002</u>	<u>456,252</u>	<u>446,446</u>
<b>Total liabilities</b>		<b><u>70,638,322</u></b>	<b><u>63,456,358</u></b>	<b><u>69,764,952</u></b>	<b><u>62,730,971</u></b>

The company's profit for the financial year is £6,726,129 (2018: £4,343,518 loss).

The notes on pages 30 to 49 form an integral part of the financial statements. The financial statements were approved by the board of directors and authorised for issue on 24 June 2020.

Signed on its behalf by



R. S. Piper  
**Director**  
**Company Registration No. 00085588**

**SOVEREIGN HEALTH CARE**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	£	2019 £	£	2018 £
<b>Cash flows from operating activities</b>					
Cash used in operations	1		(1,202,599)		(1,063,479)
Income taxes paid			590,878		(320,345)
<b>Net cash outflow from operating activities</b>			<u>(611,721)</u>		<u>(1,383,824)</u>
<b>Investing activities</b>					
Dividend and Interest received		1,579,147		1,464,625	
Purchase of fixed assets		(40,534)		-	
Sale of Fixed Assets		15,000		-	
Purchase of other investments		(6,359,768)		(2,289,374)	
Proceeds on disposal of other investments		11,321,404		2,281,749	
<b>Net cash used in investing activities</b>			<u>6,515,249</u>		<u>1,457,000</u>
<b>Net decrease in cash and cash equivalents</b>			<u>5,903,528</u>		<u>73,176</u>
Cash and cash equivalents at beginning of year			12,792,730		12,719,554
<b>Cash and cash equivalents at end of year</b>			<u><u>18,696,258</u></u>		<u><u>12,792,730</u></u>

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**1 Cash used in operations**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Surplus/(Deficit) for the year	6,791,243	(4,280,895)
Adjustments for:		
Income tax expense recognised in statement of income and retained earnings	203,522	(566,475)
Investment income	(1,564,580)	(1,488,077)
Amortisation and impairment of intangible assets	5,250	12,600
Depreciation and impairment of tangible fixed assets	49,850	64,142
Profit on Sale of Fixed Asset	(8,162)	-
(Gain)/loss on sale of investments	(3,358,679)	222,582
Unrealised (gain)/(loss) on Investments	(3,421,055)	5,092,705
Movements in working capital:		
Decrease in debtors	101,984	58,415
Increase in creditors	(1,972)	(178,476)
<b>Cash used in operations</b>	<u>(1,202,599)</u>	<u>(1,063,479)</u>

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2.1 Accounting policies**

**Company Information**

Sovereign Health Care is a company limited by guarantee, domiciled and incorporated in England and Wales. The registered office is Royal Standard House, 26 Manningham Lane, Bradford, BD1 3DN.

**2.1 Basis of preparation**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), FRS 103 "Insurance Contracts" ("FRS 103") and the requirements of the Companies Act 2006.

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

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below:

The consolidated statement of income and retained earnings and statement of financial position include the financial statements of the company and its subsidiary undertakings made up to 31 December 2019. The results of subsidiaries sold or acquired are included in the consolidated statement of income and retained earnings account up to or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

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

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

The Company has taken advantage of the following exemptions:

- a) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows; and
- b) from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

**2.2 Going concern**

Based upon their detailed analysis, the directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for a period of at least 12 months from the date of these accounts. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

**2.3 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 2019**

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**2 Accounting policies (continued)**

**2.4 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.

**2.5 Investment Income**

An allocation of the investment return is made between the non-technical and technical accounts for general business to reflect the investment return generated from the retained holding of historical profits. Investment income is recognised net of investment management fees.

**2.6 Intangible fixed assets**

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software Development Costs	25% p.a. straight line
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**2.7 Tangible fixed assets**

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Building additions	10% p.a. straight line
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Computer equipment	25% p.a. straight line
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Office furniture and equipment	20% p.a. straight line
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Motor vehicles	25% p.a. straight line
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Properties whose fair value can be measured reliably are held under the revaluation model and are carried at a revalued amount, being their fair value at the date of valuation. The fair value of the land and buildings is usually considered to be their market value.

Revaluation gains and losses are recognised as a profit or loss through the statement of other comprehensive income.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the income and retained account when realised.

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2 Accounting policies (continued)**

**2.8 Financial Investments**

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

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transactions and its original cost or amortised cost as appropriate.

Unrealised gains or losses represent the difference between the carrying value at the financial year-end and the carrying value at the previous financial year-end or purchase value during the financial year, less the reversal of previously recognised unrealised gains and losses in the respect of disposals during the financial year.

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

**2.9 Impairment of fixed assets**

At each reporting end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of income and retained earnings, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) prior years. A reversal of an impairment loss is recognised immediately in the statement of income and retained earnings, unless the relevant asset is carried in at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**2.10 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2 Accounting policies (continued)**

**2.11 Financial assets**

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial assets are recognised in the Group's statement of financial position at initial cost or when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Other financial assets classified as fair value through the statement of income and retained earnings are measured at fair value.

***Loans and receivables***

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

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

***Impairment of financial assets***

Financial assets, other than those held at fair value through the income and retained earnings account, are assessed for indicators of impairment at each reporting end date.

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

***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when the Group transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2 Accounting policies (continued)**

**2.12 Financial liabilities**

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Other financial liabilities classified as fair value through the statement of income and retained earnings are measured at fair value.

***Other financial liabilities***

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

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

***Derecognition of financial liabilities***

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

**2.13 Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

***Current tax***

The tax currently payable is based on taxable profit for the year and using tax rates that have been enacted or substantively enacted by the reporting end date. Taxable profit differs from net profit as reported in the statement of income and retained earnings because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using the latest enacted rate of corporation tax. This allows the company to offset its unrealised losses on investments against its corporation tax liability and carry forward any unutilised losses.

***Deferred tax***

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

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.

**2.14 Provisions**

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

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

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

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**2 Accounting policies (continued)**

**2.15 Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

**2.16 Retirement benefits**

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

**2.17 Leases**

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

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

Assets held under finance leases are recognised at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the statement of financial position as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the statement of income and retained earnings to produce a constant periodic rate of interest, on the remaining balance of the liability.

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

**3 Accounting estimates and judgements**

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

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

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

**Critical accounting judgements in applying the Company's accounting policies**

**Claims provision**

Provision is made for the cost of claims incurred up to the statement of financial position date and outstanding at that date. Calculation of the provision requires judgement and is based upon prior claims experience. The actual amounts paid may significantly vary from the projections based on historical data. The provision of £742,881 (2018: £765,831) 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 17 on page 47.

**Property valuation**

The fair value, £755,000 (2018: £755,000) of the land and buildings has been arrived at on the basis of a valuation carried out on 15 March 2019. The valuation was made on an open market value basis by reference to market evidence of transaction prices for similar properties. Refer to note 13 on pages 41 and 42.

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**4 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.

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Gross premiums written	12,164,260	12,230,690
less: Insurance premium tax	(1,302,355)	(1,286,803)
Change in gross provisions for unearned premiums	<u>48,601</u>	<u>34,327</u>
Net premiums earned	<u><u>10,910,506</u></u>	<u><u>10,978,214</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 statement of income and retained earnings account on pages 24 and 25.

**5 Claims incurred**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Claims paid	7,651,982	7,251,414
Claims handling expenses paid	189,915	-
Change in provision for outstanding claims	(22,950)	5,330
Change in provision for claims handling expenses	<u>18,991</u>	<u>-</u>
Claims incurred	<u><u>7,837,938</u></u>	<u><u>7,256,744</u></u>

**6 Net operating expenses**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Acquisition costs	1,254,973	1,253,894
Administration	<u>2,092,539</u>	<u>2,894,131</u>
	<u><u>3,347,512</u></u>	<u><u>4,148,025</u></u>

Operating profit is stated after charging:

Amortisation of intangible assets	5,250	12,600
Depreciation of tangible assets	49,850	64,142
Plant and machinery	34,459	62,105

**Auditors' remuneration (exclusive of VAT)**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Fees payable to the group's auditor for the audit of the company's annual accounts	44,600	48,473
Fees payable to the group's auditor for the audit of the subsidiary companies annual accounts	<u>10,800</u>	<u>10,800</u>
	<u><u>55,400</u></u>	<u><u>59,273</u></u>

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**7 Employees**

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

	<b>2019</b>	<b>2018</b>
	<b>Number</b>	<b>Number</b>
Sales and Marketing	19	18
Customer services	7	7
Claims	10	10
Business Services	5	4
Administration and finance	7	8
	<u>48</u>	<u>47</u>

Their aggregate remuneration comprised:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Wages and Salaries	1,634,449	1,620,639
Social security costs	161,451	164,141
Other pensions costs	106,627	97,342
Personal accident and health insurance	34,056	34,212
	<u>1,936,583</u>	<u>1,916,334</u>

**8 Directors' remuneration**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Remuneration for qualifying services	352,510	410,288
Company pension contributions to defined contribution schemes	21,900	22,584
	<u>374,410</u>	<u>432,872</u>

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

Remuneration for qualifying services	172,608	169,094
Contribution to defined contribution pension	14,108	13,697

**9 Investment Income**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Income from listed investments	1,453,651	1,407,305
Bank and other interest	110,929	80,772
Allocated investment return allocated to technical account	1,564,580	1,488,077
Investment Management fees	(277,198)	-
Realised gains/(losses) on investments	3,358,679	(206,118)
Investment Income	<u>4,646,061</u>	<u>1,281,959</u>

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**10 Taxation**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Current tax</b>		
UK corporation tax on profits/(losses) for current period	392,688	(402,364)
Adjustments in respect of prior period	(189,166)	(164,111)
<b>Total current tax</b>	<u>203,522</u>	<u>(566,475)</u>
<b>Deferred tax</b>	-	-
<b>Total Tax</b>	<u><u>203,522</u></u>	<u><u>(566,475)</u></u>
The (credit)/charge for the year can be reconciled to the (loss)/profit as per the statement of income and retained earnings as follows:		
	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Profit/(loss) before taxation on continued operations</b>	<u>6,994,765</u>	<u>(4,847,370)</u>
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of corporation tax of 19.00%(2018 - 19.00%)	<u>1,329,005</u>	<u>(921,000)</u>
<b>Effects of:</b>		
Disallowable expenses/income	(90)	3,763
Losses brought forward	(661,453)	-
Losses carried back	-	402,364
Depreciation add back	9,472	12,187
Capital allowances	(8,053)	(1,064)
Dividends and distributions received	(276,194)	(267,244)
Prior year adjustments	(189,166)	164,111
Group Relief	-	19,103
Other tax adjustments	1	21,305
<b>Total current tax</b>	<u>(1,125,483)</u>	<u>354,525</u>
<b>Total tax</b>	<u><u>203,522</u></u>	<u><u>(566,475)</u></u>

The company has no losses available for carry forward against future trading profits (2018: £4,047,312).

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**11 Profit for the financial year**

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

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Holding company's profit/(loss) for the financial year	6,726,129	(4,343,518)

**12 Intangible fixed assets**

**Group & Company**

	<b>Software Development Cost £</b>
<b>Cost</b>	
At 1 January 2019	156,480
Additions	-
	<hr/>
At 31 December 2019	156,480
	<hr/>
<b>Amortisation and impairment</b>	
At 1 January 2019	151,230
Amortisation charged for the year	5,250
	<hr/>
At 31 December 2019	156,480
	<hr/>
<b>Carrying amount</b>	
At 31 December 2019	-
	<hr/> <hr/>
At 31 December 2018	5,250
	<hr/> <hr/>

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**13 Tangible fixed assets**

**Group**

	<b>Freehold land and buildings £</b>	<b>Building additions £</b>	<b>Computer equipment £</b>	<b>Office furniture and equipment £</b>	<b>Motor vehicles £</b>	<b>Total £</b>
<b>Cost</b>						
At 1 January 2019	755,000	48,980	229,533	49,195	36,467	1,119,175
Additions	-	7,140	-	33,394	-	40,534
Disposals	-	-	-	-	(6,838)	(6,838)
Market Value Adjustment	-	-	-	-	-	-
At 31 December 2019	<u>755,000</u>	<u>56,120</u>	<u>229,533</u>	<u>82,589</u>	<u>29,629</u>	<u>1,152,871</u>
<b>Depreciation</b>						
At 1 January 2019	-	32,036	172,178	39,063	25,831	269,108
On disposal	-	-	-	-	-	-
Charge for the year	-	5,434	36,090	4,528	3,798	49,850
At 31 December 2019	<u>-</u>	<u>37,470</u>	<u>208,268</u>	<u>43,591</u>	<u>29,629</u>	<u>318,958</u>
<b>Carrying amount</b>						
At 31 December 2019	<u>755,000</u>	<u>18,650</u>	<u>21,265</u>	<u>38,998</u>	<u>-</u>	<u>833,913</u>
At 31 December 2018	<u>755,000</u>	<u>16,944</u>	<u>57,355</u>	<u>10,132</u>	<u>10,636</u>	<u>850,067</u>

This fair value of the land and buildings has been arrived at on the basis of a valuation carried out on 15 March 2019 by Eddisons Chartered Surveyors, who are not connected with the company. The valuation was made on an open market value basis by reference to market evidence of transaction prices for similar properties. The directors consider this to be fair value of the property.

If properties were stated on an historical cost basis rather than a fair value basis, the amounts would have been subject to depreciation over a period of 50 years and included in the accounts as follows:

	<b>2019 £</b>	<b>2018 £</b>
Cost	1,750,597	1,750,597
Accumulated Depreciation	(1,190,406)	(1,155,394)
Carrying amount	<u>560,191</u>	<u>595,203</u>

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**13 Tangible fixed assets (continued)**

**Company**

	<b>Freehold land and buildings</b>	<b>Building additions</b>	<b>Computer equipment</b>	<b>Office furniture and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	£	£	£	£	£	£
<b>Cost</b>						
At 1 January 2019	755,000	48,980	229,533	49,195	36,467	1,119,175
Transfer from subsidiary	-	7,140	-	33,394	-	40,534
Disposals	-	-	-	-	(6,838)	(6,838)
Market Value Adjustment	-	-	-	-	-	-
At 31 December 2019	<u>755,000</u>	<u>56,120</u>	<u>229,533</u>	<u>82,589</u>	<u>29,629</u>	<u>1,152,871</u>
<b>Depreciation</b>						
At 1 January 2019	-	32,036	172,178	39,063	25,831	269,108
On disposal	-	-	-	-	-	-
Charge for the year	-	5,434	36,090	4,528	3,798	49,850
At 31 December 2019	<u>-</u>	<u>37,470</u>	<u>208,268</u>	<u>43,591</u>	<u>29,629</u>	<u>318,958</u>
<b>Carrying amount</b>						
At 31 December 2019	<u>755,000</u>	<u>18,650</u>	<u>21,265</u>	<u>38,998</u>	<u>-</u>	<u>833,913</u>
At 31 December 2018	<u>755,000</u>	<u>16,944</u>	<u>57,355</u>	<u>10,132</u>	<u>10,636</u>	<u>850,067</u>

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

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**14 Investments**

<b>Group</b>	<b>Current assets</b>		<b>Non current assets</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Listed on a recognised investment exchange	50,199,191	48,381,095	-	-
Unlisted investments	-	-	2,519	2,519
	<u>50,199,191</u>	<u>48,381,095</u>	<u>2,519</u>	<u>2,519</u>
<b>Company</b>	<b>Current assets</b>		<b>Non current assets</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Investments in subsidiaries	-	-	10,100	10,100
Listed on a recognised investment exchange	50,199,191	48,381,095	-	-
Unlisted investments	-	-	2,519	2,519
	<u>50,199,191</u>	<u>48,381,095</u>	<u>12,619</u>	<u>12,619</u>

The company has not designated any financial assets that are not classified as held for trading as financial assets at fair value through the statement of income and retained earnings.

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**14 Investments (continued)**

**Movement in non current asset investments**

<b>Group</b>	<b>Shares £</b>	<b>Total £</b>
<b>Cost or valuation</b>		
At 1 January 2019	2,519	2,519
Additions	-	-
Valuation changes	-	-
Disposals	-	-
	<u>2,519</u>	<u>2,519</u>
<b>Carrying amount</b>		
At 31 December 2019	<u>2,519</u>	<u>2,519</u>
At 31 December 2018	<u>2,519</u>	<u>2,519</u>
<b>Company</b>	<b>Shares £</b>	<b>Total £</b>
<b>Cost or valuation</b>		
At 1 January 2019	12,619	12,619
Additions	-	-
Valuation changes	-	-
Disposals	-	-
	<u>12,619</u>	<u>12,619</u>
<b>Carrying amount</b>		
At 31 December 2019	<u>12,619</u>	<u>12,619</u>
At 31 December 2018	<u>12,619</u>	<u>12,619</u>
<b>Group and company</b>	<b>2019 £</b>	<b>2018 £</b>
Listed on a recognised investment exchange:		
Share or other variable yield securities and units in unit trust	34,354,431	35,957,390
	<u>34,354,431</u>	<u>35,957,390</u>

**Holdings of more than 20%**

<b>Company</b>	<b>Percentage of shares held</b>	<b>Nature of Business</b>
Sovereign Health and Insurance Services Limited	100	Insurance intermediary
Sovereign Assured Partners Limited	100	Insurance agent and broker

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

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**15 Financial Instruments**

	<b>2019</b>	<b>Group</b>	<b>2019</b>	<b>Company</b>
	<b>£</b>	<b>2018</b>	<b>£</b>	<b>2018</b>
		<b>£</b>		<b>£</b>
<b>Financial assets held at fair value</b>				
Holdings in collective investment schemes	50,199,191	48,381,095	50,199,191	48,381,095
Cash held within investment funds	3,957,310	1,740,809	3,957,310	1,740,809
<b>Total investment portfolio held at FV</b>	<b>54,156,501</b>	<b>50,121,904</b>	<b>54,156,501</b>	<b>50,121,904</b>
<b>Financial assets held at amortised cost</b>				
Cash held at credit institutions and in hand	14,738,949	11,051,921	13,679,232	10,164,043
Debtors arising out of direct insurance operations	555,047	544,648	527,528	515,013
Unlisted investments	2,519	2,519	12,619	12,619
<b>Total financial instrument held at amortised cost</b>	<b>15,296,515</b>	<b>11,599,088</b>	<b>14,219,379</b>	<b>10,691,675</b>
<b>Total financial assets</b>	<b>69,453,016</b>	<b>61,720,992</b>	<b>68,375,880</b>	<b>60,813,579</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Financial liabilities held at fair value</b>				
Technical Provisions	1,262,222	1,314,782	1,262,222	1,308,189
<b>Total financial liabilities held at fair value</b>	<b>1,262,222</b>	<b>1,314,782</b>	<b>1,262,222</b>	<b>1,308,189</b>
<b>Financial liabilities held at amortised cost</b>				
Creditors & Accruals	640,761	113,489	503,945	527,156
<b>Total financial liabilities held at amortised cost</b>	<b>640,761</b>	<b>113,489</b>	<b>503,945</b>	<b>527,156</b>
<b>Total financial liabilities</b>	<b>1,902,983</b>	<b>1,428,271</b>	<b>1,766,167</b>	<b>1,835,345</b>

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 income and retained earnings.

FRS 102 fair value measurement establishes a fair value hierarchy that categories into three levels the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs into the valuation technique (Level 3).

Level 1: quoted prices in active markets for identical assets.

Level 2: inputs other than quoted prices (per level 1) that are observable for the assets.

Level 3: valuation technique based on an arm's length pricing for the asset.

All financial debt instruments held by the Company are held in cash deposits with recognised counterparties and are neither past due or deemed to be impaired or invested in globally traded equity holdings, both of which are subject to tier 1 pricing for fair value calculations.

Debt instruments with credit institutions of £18,660,908 are all due within 12 months and the carrying value is deemed a reasonable approximation of fair value.

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

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**15 Financial instruments (continued)**

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

**Market Risk**

The company is exposed to market risk (primarily equity and currency risks) in respect of its financial assets carried at fair value. These assets were held at £50,199,191 (2018: £48,381,095) and are traded on regulated financial markets, both in the UK and abroad. Management of the investments is undertaken utilising the advice of third party wealth management professionals on a recommendation basis. Movements in the regulated markets can drive volatility within the valuation of these assets.

**Liquidity Risk**

Debt instruments held with credit institutions, including term cash deposits are managed internally. Balances are placed on deposit for periods of up to 12 months in such a manner to ensure that sufficient funds are always available to meet the short term operational expenditure, investment decisions and any other liabilities as they fall due. Total cash held with credit institutions of £18,660,908 (2018: £12,762,362) are held with a number of counterparties and differing terms. The balance identified as less than 1 month includes cash immediately available of £7,768,998 (2018: £4,390,441). The company is therefore exposed to risk in relation to the counterparties availability of funds to meet the terms of the deposits as they fall due. This risk is managed through the careful selection of counterparties and the use of credit rating agency view of potential partners and the operation of the counterparty risk policy within the business, limiting the exposure to any specific party and the overall risk at each level of credit rating.

The maturity profile as at 31 December 2019 of the cash held with credit institutions are:

Less than or equal to 1 month	£12,537,603
Greater than 1 but less or equal to 6 months	£4,023,305
Greater than 6 months	£2,100,000
	<b>£18,660,908</b>

The Group deems the above as cash and cash equivalents due to the nature of the cash deposits which are repayable on request. If such request was made prior to maturity date, the Group would forgo the interest earned and/or incur a penalty charge. The Group also holds cash in hand of £35,349 (2018: £30,368).

The Group is also exposed to liquidity risk in meeting operating costs as represented by the other creditor and accruals figures on the statement of financial position totalling £1,367,356 (2018: £923,254), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £1,262,222 (2018: £1,314,782). Both of these exposures are due within 12 months of the statement of financial position date, and in particular the large majority of claims represented by the technical provisions are generally settled within 3 months.

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

**Credit Risk**

The company's exposure to credit risk is not limited to the balances identified in the liquidity risk section, but also covers the carrying value of certain other financial assets, namely contributors' premiums due not received (included within debtors) of £555,047 (2018: £544,648).

The company is exposed to credit risk through the potential for default on any of the balances due. To mitigate the risk the company performs appropriate levels of investigation over potential partners, with credit institution deposits in particular being subject to the requirements laid out in the appropriate risk policies.

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

<b>Counterparty</b>	<b>Rating</b>
Barclays Bank	A
Close Brothers	A
Aegon (CoFunds)	A
Handelsbanken	AA
Yorkshire Bank	BBB

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

**Coronavirus Risk**

Refer to the Strategic report on pages 7 and 8 of the annual report and accounts.

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**16 Other Debtors**

Due within one year	2019 £	Group 2018 £	2019 £	Company 2018 £
Intercompany debtors	-	-	209,361	191,770
Corporation tax debtor	-	566,183	-	566,183
Other debtors	1,265	5,145	-	-
	<u>1,265</u>	<u>571,328</u>	<u>209,361</u>	<u>757,953</u>

**17 Technical Provisions**

	2019 £	Group 2018 £	2019 £	Company 2018 £
<b>Unearned Premiums</b>				
As at 1 January	548,951	583,278	542,358	576,997
Movement in provision	(48,601)	(34,327)	(42,008)	(34,639)
As at 31 December	<u>500,350</u>	<u>548,951</u>	<u>500,350</u>	<u>542,358</u>
<b>Provision for outstanding claims</b>				
As at 1 January	765,831	760,501	765,831	760,501
Movement in provision	(22,950)	5,330	(22,950)	5,330
As at 31 December	<u>742,881</u>	<u>765,831</u>	<u>742,881</u>	<u>765,831</u>
<b>Provision for outstanding claims handling expenses</b>				
As at 1 January	-	-	-	-
Movement in provision	18,991	-	18,991	-
As at 31 December	<u>18,991</u>	<u>-</u>	<u>18,991</u>	<u>-</u>

## SOVEREIGN HEALTH CARE

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

#### 17 Technical Provisions (continued)

##### Uncertainties and estimation techniques

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

##### Process for determining assumptions

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

##### Group sensitivity analysis

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

##### Group - sensitivity

	Surplus/(deficit) before tax		Reserves	
	2019 £	2018 £	2019 £	2018 £
<b>Before sensitivities</b>	6,994,765	(4,847,370)	67,900,125	61,108,882
<b>After applying claims sensitivity</b>				
- 5% increase in claims loss ratio	(53,019)	(57,572)	67,847,106	61,051,310
- 5% decrease in claims loss ratio	53,020	57,572	67,953,145	61,166,454

#### 18 Creditors

Due within one year	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Corporation tax	392,693	-	375,712	-
Taxation and social security	333,901	331,763	333,901	331,763
Trade creditors	139,811	113,489	47,693	80,709
	<u>866,405</u>	<u>445,252</u>	<u>757,306</u>	<u>412,472</u>

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

Group and company	2019 £	2018 £
At beginning of year	109,440	107,721
Transfer from Technical Account	(821)	1,719
	<u>108,619</u>	<u>109,440</u>

**SOVEREIGN HEALTH CARE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**20 Retirement benefit schemes - Defined contribution schemes**

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

The charge to statement of income and retained earnings in respect of defined contribution schemes was £106,626 (2018 - £97,341).

**21 Retained earnings**

	<b>2019</b>	<b>Group</b>	<b>2019</b>	<b>Company</b>
	£	<b>2018</b>	£	<b>2018</b>
		£		£
At beginning of year	61,108,882	65,389,777	60,454,424	64,797,942
Surplus/(deficit) on income and expenditure	6,791,243	(4,280,895)	6,726,129	(4,343,518)
At end of year	<u>67,900,125</u>	<u>61,108,882</u>	<u>67,180,553</u>	<u>60,454,424</u>

**22 Operating lease commitments**

**Lessee**

Operating lease payments represent rentals payable by the group for motor vehicles and office equipment. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. At the reporting end date the group had outstanding commitments for future minimum lease payments under non- cancellable operating leases, which fall due as follows:

	<b>2019</b>	<b>2018</b>
	£	£
Within one year	40,116	40,116
Between two and five years	40,509	32,347
	<u>80,625</u>	<u>72,463</u>

**23 Capital commitments**

The group had no contractual commitments as at 31 December 2019 (2018: None).

**24 Subsequent events**

The Coronavirus reached pandemic status in the post balance sheet period. Further information on this is detailed in the Strategic report, on pages 7 and 8 of the annual report and financial statements.