



BHSF Group Limited

Annual Report and Accounts 2017



Our history

Our history, from our foundation in 1873, is one of service to the community. An eminent Birmingham surgeon, Joseph Sampson Gamgee, proposed that in addition to the annual Hospital Sunday, whereby churches donated their collections to the voluntary hospitals, there should also be a Hospital Saturday with special collections. In particular, he suggested that workers be invited to work overtime on one Saturday afternoon in the year, especially to donate their earnings to the Birmingham Hospital Saturday Fund for distribution to voluntary hospitals. From these modest beginnings, similar organisations sprang up in other cities and towns, and there are now nearly four million people insured under schemes that began in this way.

The provision of funding for local hospitals continued until the arrival of the National Health Service in 1948.

Meanwhile, from 1892 until 2004, BHSF offered a convalescence service that enabled countless thousands

of people to recover their health after illness or surgery, enabling them to return to their normal way of life much more quickly.

For many years BHSF has been a leading provider of health cash plans, and in more recent years has widened its scope to offer a range of employee benefits and a portfolio of HR support services, including occupational health.

BHSF acquired The Health Scheme business in 2001, Forester Health - re-named Cash4Health - in 2008, Network Insurance Brokers Limited in 2010, Abbott Burke Associates Limited and PTH Group Limited in 2012, Occupational Health Consultants Limited in 2013, the business of Libra Occupational Health in 2014, WellWork Limited and M3OH Services Limited in 2015, and both Newhall Medical Practice Limited and Nexus Healthcare Limited in 2016.

Our vision

Improving health and wellbeing for every generation.

Our mission as a not-for-profit business

- To maximise customer satisfaction, value and quality.
- To encourage every team member to realise their full potential.
- To achieve excellence in operations and business development.
- To secure competitive advantage by innovation.

Our values

- We provide excellent value, consistent with prudence, and serve customers to an outstanding level.
- We treat others properly in accordance with our Business Ethics Policy.
- We recognise our obligations to all our stakeholders, and we share our success through community action and support.

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At BHSF, we are committed to protecting your data and compliance with data protection legislation. Our aim in processing your data is to successfully deliver our service to you with an appropriate level of data sharing, while recognising the need to protect your fundamental rights to privacy. For further information, please see our full Privacy Notice by visiting our website www.bhsf.co.uk/privacynotice. This document fully sets out how and why we are processing the information we have on you. It also explains your rights to access, rectify, restrict or erase your data.

Chairman's statement



Andrew Milner
Chairman

I served BHSF as a non-executive director initially from 2001-2009. I was reappointed to the Group Board in 2013 and became the Senior Independent Director in 2016. I was then appointed as Chairman of the Group in 2017, following the departure of Jane Dale. During her time as Chairman of BHSF, Jane's skills in corporate governance and the financial services regulatory regime were of particular value and will be a lasting legacy.

My own career has been varied; I spent time in the private, public, community and voluntary sectors, including as Chairman and Chief Executive in manufacturing and distribution businesses, and as Chief Officer in local government. I am honoured to have been appointed Chairman of BHSF and will do my utmost to serve to the very best of my ability, and to return the faith placed in me.

2017 has been another very busy year for BHSF, with a number of major changes including the retirement of Peter Maskell, who stood down as Group Chief Executive at the end of August 2017, after completing over 18 years of service to BHSF. During Peter's time as Chief Executive, BHSF has grown from a turnover of £11m and 48 employees, to a turnover of £44m and 271 employees.

BHSF has achieved this through organic growth, acquisition and diversification. Peter has left a huge legacy and it is now our task to build on this investment for the future.

On 1 September 2017, our Finance Director, Ian Galer, took over the role of Group Chief Executive. Ian brings significant experience to BHSF, having worked for Wesleyan Assurance Society for many years prior to joining us in 2013. Ian is establishing his vision of the one business model to the BHSF Group and this is supported by a new strategy which, led by the Board, is being delivered throughout the Group.

Risk management and regulatory compliance have been high on our agenda in 2017, and a lot of work has gone into ensuring that we continue to improve our risk management processes and procedures, and comply with the regulatory regimes. Our governance arrangements continue to be strengthened to ensure that they are fit for purpose and provide appropriate safeguards and controls for BHSF as a not-for-profit business. To aid this strengthening, in 2018, Charlotte Taylor has been appointed Group Company Secretary and she has a significant role in advising the Group Board on effective governance throughout BHSF. At the same time as this appointment, Dr Philip McCrea became Chief Medical Officer for the Group. I wish both of them well in their new roles.

The boards of BHSF Group and its subsidiaries have met regularly throughout the year and as always, have had challenging agendas covering a wide range of complex issues. The committees, of which there are four - Audit, Investment, Risk and Compliance, and Remuneration and Nomination, undertake essential work on behalf of and in advising the Group Board. They have met on a regular basis, contributing hugely to the work of the Group Board and I thank the respective memberships sincerely for their time and dedication.

We were sorry to say farewell to Neil Mackay who retired as a non-executive director in January 2018 after nine years' service, and we would like to thank him for the value, challenge and insight he brought to our meetings. Neil never lost his independence when making a contribution to our Group Board meetings, and also the Remuneration and Nomination Committee that he chaired, as well as other committees of which he was a member. We wish him all the best for the future.

In July 2017, we welcomed Chris Wiggan to the Group Board as a non-executive director. He is a partner at Shakespeare Martineau, specialising in insurance and corporate risk and has over 30 years of experience. Chris brings a particular skill-set to the Group Board, enhancing the overall range that our non-executive directors contribute to our discussions, and ensure that high quality strategic debates take place.

In October 2017, Adrian Hope was appointed to the Group Board as Chief Information Officer. Adrian joined BHSF in October 2016 as IT Director on the subsidiary boards initially. Following Ian's promotion to Group Chief Executive, Tom Ross, who had been Head of Finance for three years, took over the role of Chief Finance Officer. I welcome both of these executive appointments.

I am very pleased to be working with a team of dedicated and energetic directors with a passion for driving the business forward. The executive directors run the day-to-day operations of the business, while the independent non-executive directors provide challenge, advice and oversight.

2017 has been a year of big changes, with a strong strategic transformation plan in place. I look forward to seeing these changes being embedded in 2018, which is a year that will hold many challenges and changes of its own.

Andrew Milner
Chairman

6 June 2018

Group Chief Executive's business review



Ian R Galer
Group Chief Executive

Change at the top

As the Chairman has already mentioned, I took over as Group Chief Executive on 1 September 2017. To be given the opportunity to follow in the footsteps of my predecessor, Peter Maskell, is a great honour but also quite daunting as Peter achieved so much over so many years. I would like to put on record my personal thanks to Peter for all the support he gave me, particularly in our handover period, but also the thanks from my fellow directors for guiding the business so well, and for leaving the Group in such good shape. It now falls to me to guide BHSF through the next stage of its development.

Strategy

Since 1 September 2017, I have spent much of my time developing the strategy for BHSF for the next five years. These are not easy times to operate in, with a great deal of economic uncertainty surrounding Brexit. The key part of our strategy is therefore to continue diversifying and in particular, continuing to grow the occupational health side of the business.

With the help of my fellow directors, we produced a strategy that was approved by the board in November 2017. On 5 January 2018, I presented this strategy to the staff at a special event held at the Mac in Cannon Hill Park, Birmingham. The key messages were reinforced by our guest speaker, Kriss Akabusi, and his presentation in particular, went down very well with the staff. Our focus has now turned to delivering this strategy.

Results for the year

Despite the continuing economic uncertainty, I am pleased to report that BHSF has had a very good year. Record sales in excess of £12m of new

annual premiums were recorded. This was helped by the transfer to BHSF of the Benenden book of health cash plans, and I would like to thank all members of staff who worked so hard to make this a successful transfer. Even ignoring the Benenden book, there was a 28% increase on the 2016 result. A huge thank you must go to all the sales staff and also the back office staff who process this new business. The Group's results were also helped by another excellent investment performance, plus a reduction in the pension scheme deficit, largely as a result of the improved investment performance in the scheme.

Group revenue grew by 8.6% to £44.3m

Group wide revenue grew by 8.6% to £44.3m and the total comprehensive income for the year was £1.8m

compared to comprehensive expenditure in 2016 of £1.07m.

Regulations

During 2017 there was no let-up in the amount of new regulations, which inevitably led to a large increase in costs of the business.

In the Spring of 2017, we published our first Solvency and Financial Condition report, and in December 2017 we submitted our latest Own Risk and Solvency Assessment document to the Prudential Regulation Authority (PRA), having performed a great deal of work to improve the quality of this document, and this development will continue in future years. In addition to the Solvency II development, considerable work has been done on General Data Protection Regulation (GDPR) to ensure that we comply with the regulations that went live

in May 2018. Further regulatory work will be required for the Insurance Distribution Directive (IDD), which is due to go live in October

2018, and also the Senior Managers and Certification Regime (SMCR) that is due to go live in December 2018. These, no doubt, will be an extra burden to an already very busy business, but I am confident that we will be compliant by the due dates.

Insurance business

On 1 June 2017, Insurance Premium Tax increased from 10% to 12%. In such a low margin business, it was inevitable that we would have to pass these costs onto customers. Such price increases are expensive to administer and contributed to our large increase in costs in 2017.

Sales of our personal cancer plan, Plan4Life, and our Personal Accident insurances (both individual and group) have continued to grow steadily. Also, the use of our electronic claims service has steadily increased, and we continue to promote this.

Occupational health

2017 has been a year of consolidation for the occupational health business. Over the previous few years, we have acquired eight occupational health businesses nationwide and integrating all of these operations has been a huge task. Having gained the SEQOHS accreditation, it is very important to ensure all processes remain consistent. This task will be helped by the implementation of the Cohort administration system in the Summer of 2018. We were also re-accredited with SEQOHS in March 2018.

In 2017, we invested in ensuring the right staff were in the right locations and as part of this we moved our occupational health head office from Bromsgrove to Five Ways in Birmingham. We also relocated the Liverpool office to more modern and accessible premises.

Although the overall result for occupational health in 2017 was disappointing, it did show a significant improvement on the previous year. With the back office administration now in place and a healthy sales pipeline coming through, I am confident that 2018 will see further improvements in the occupational health results.

One of the companies that we acquired in 2016 was Newhall Medical Practice, based in central Birmingham. We have now relocated to a newly refurbished office, renamed BHSF Medical Practice, and opened as an executive drop-in centre on 14 May 2018. This is an exciting new development for the BHSF Group and I look forward to seeing how this grows over the next few years.

*SEQOHS
accreditations
gained in 2017 and
re-accredited in 2018*

Other products and services

BHSF Employee Benefits Limited employs our sales team; this company markets our wider range of employee benefits and HR services, where we often partner with external suppliers.

The turnover for this company increased by 27.7% in 2017. Much of this increase was due to the sale of insurance products on behalf of BHSF Limited. However, there were significant increases in non-insurance business and in particular, sales of our smartphone-based service, BHSF Connect.

At BHSF, we are committed to providing our corporate clients with products that can ease the stress on their staff.

Products such as Pay4Sure sickness benefit insurance, and also the facility to consolidate debts, can go a long way to relieving this stress.

*Investment portfolio
reaches all-time
high value*

Other operational matters

With BDO having won the tender to provide their audit services in 2016, under new regulations they were unable to continue as our tax advisers. We therefore put this service out to tender, and I am pleased to say that PwC will in future be providing this service.

During 2017, Adrian Hope, who was already IT director of the subsidiary companies, was added to the Group Board in recognition of the importance of his role going forward. The new finance system is already in place, and there are plans to introduce new systems in various parts of the business. Adrian also has responsibility in our bid to gain the ISO

27001 – information security accreditation, and good progress is being made towards this. It is essential that BHSF demonstrate that it can protect the data on its systems and defend itself from the ever-increasing risk of cyber-attacks. The controls that Adrian has already introduced have gone a long way to ensuring this.

When I became Group Chief Executive on 1 September 2017, my role as Group Finance Director had to be filled. I was delighted when the Board approved Tom Ross, previously Head of Finance, as my successor. I had the pleasure of working closely with Tom over the previous three years, and I have no doubt that

he is the right person to succeed me. Tom has had an extremely busy few months, not only preparing these accounts, but also

implementing the new Sage accounting system. It will take some time for this system to bed-in and for us to reap all the benefits that this new system can provide.

Investments

UBS manages the investments of both BHSF Limited and of the Group's final salary pension scheme. 2017 saw another very good performance in the investment book, particularly in equities where the FTSE 100 achieved an all-time high. The investment income and unrealised gains on investments and property overall achieved a very similar result to the excellent result of the previous year.

Actuarial

Our closed final salary pension scheme continues to be a significant risk that we monitor closely in liaison with the Trustees. This pension scheme forms a major part of our Solvency II calculations.



Achievement Award Winners 2016



Achievement Award Winners 2017

During 2017, our actuarial consultants, Quattro Pensions, performed a triennial valuation on the pension scheme. The result of this was a pension deficit of £352,000, compared to a pension scheme liability in the 2016 accounts of £1.9m, and a pension scheme liability in the 2017 accounts of £881,000. The difference in the triennial valuation is largely due to this being carried out on a different calculation basis to that required under the FRS102 accounting standards.

People

We take the welfare of the staff very seriously, both in terms of health and safety and the benefits they receive. The vast majority of colleagues are now members of the Company's defined contribution pension scheme.

We especially recognise colleagues whose performance has been outstanding by making achievement awards.

The worthy winners for 2016 were presented with a commemorative goblet at our annual dinner in May 2017.

- Above and Beyond the Call of Duty
- **April Greenaway**, Business Development Coordinator, Direct Sales Team
- Working to be the Best Team Player
- **Hayley Reid**, Assistant Manager, After Sales Team
- Excellent Customer Service
- **Janice Gill**, Assistant Manager, Claims Services Team
- Results Driven to Deliver Great Sales -
Paul Nugent, Broker Manager (North), Intermediary
- Developer of People and/or Ideas
- **Hayley Reid**, Assistant Manager, After Sales Team
- Angela Palmer Award for Clinical Excellence - **Liz Baldock**, Occupational Health Adviser, BHSF OH

The worthy winners for 2017 were presented with Red Letter Day vouchers at our strategy event in January 2018.

- Above and Beyond the Call of Duty
- **Aylesha Allcott**, Team Senior, Claims Services Team
- Senior Management Award
- **Louise Eden**, Assistant Manager, Technical and Compliance
- Sales Achievement Award
- **Julia Maskell**, Senior Employee Benefits Consultant, Sales Team

- Angela Palmer Award for Clinical Excellence - **Kai Matapo**, Trainee Occupational Health Adviser, BHSF OH
- Chief Executive Award
- **Dawn Mote**, Operations Manager (Midlands & North), BHSF OH

BHSF continues to be a very busy business. We now employ nearly 300 staff and I would like to thank all colleagues for their continued support and hard work. I look forward to leading BHSF through the many challenges ahead, and I have no doubt that with the support of my colleagues, BHSF will continue to grow and prosper.

Ian R Galer
Group Chief Executive
6 June 2018

Strategic Report

Principal business

BHSF Group Limited is a non-trading holding company that is constituted and operates on a not-for profit basis. Through its subsidiaries, BHSF provides health cash plans, other insurances, a range of employee benefits, a portfolio of HR support-services, together with a growing and market respected occupational health service. BHSF serves its 6,000 client businesses and 275,000 policyholders and their families without losing sight of its philanthropic roots.

The Group principally comprises BHSF Group Limited and the following trading companies:

Company	Service provision
BHSF Limited	General insurance underwriter
BHSF Employee Benefits Limited	Insurance brokerage, provision of employee benefits
BHSF Occupational Health Limited	Occupational health services
BHSF Medical Practice Limited	Occupational health and GP services
BHSF Management Services Limited	Administration for other Group companies

Future planning and position of the business

As reported in the 2016 Report and Accounts, we have pursued strongly the development of our occupational health service division. New business has increased considerably with some notable contracts won. Operating from offices in Birmingham, Belfast, Bristol, Dublin, Liverpool, London, Milton Keynes and Newcastle, the division now provides occupational health services to around 700 client businesses.

In addition, we have relocated our medical practice service to a prestigious city centre office location in the business sector of Birmingham. The new office targets the business community, providing 'on-the-spot' GP services that can range from vaccinations and pre-employment assessments to occupational health services.

Risk management framework

The Group's risk management framework has been developed to monitor and manage the risks of the Group and all its subsidiaries, and is owned by the Board. The Group's exposure to market, credit, insurance, liquidity, operational and pension obligation risks is monitored and managed by the Head of Risk, whose responsibility is to ensure the maintenance of an adequate risk exposure and solvency position.

A key element of the Group's risk management framework is the Own Risk and Solvency Assessment process (ORSA). This provides a quantitative and qualitative assessment of risks on a current and forward-looking basis. The full ORSA process is undertaken annually.

Supplementary to the ORSA process, on a quarterly basis, an assessment of the current status of risks is undertaken and this is reported to the Risk and Compliance Committee.

The Risk and Compliance Committee advises the Board on the risk management strategy, risk management policies, the ORSA and the implications of proposed strategic transactions and compliance issues. It regularly reviews risk reports detailing the risk profile of the Group.

Based on this approach, the directors confirm that a robust assessment of the principal risks facing the Group has been carried out.

Principal risks

Under the regulatory regime that applies to insurers, we also have Board-approved policies for all principal risks. These describe how the risks are managed and mitigated. The principal risks for the Group are:

- **Health underwriting risks:** A large part of the Group's activities is medical expense insurance, where the taking of risks is part and parcel of Group activity. Our premiums are based on the detailed analysis of historical claims statistics, and we monitor claims rates and profitability closely, taking action where necessary. Claims for health cash plans are generally low in value and short term in nature.
- **Market risks:** In the provision of its services, BHSF has assets that require management. The Group actively manages financial risk by using professional advisers to manage the investment portfolio, and sets parameters within which they must operate. An investment policy has been decided to maintain a balanced investment portfolio. The investments held in the Group and the investment strategy are subject to regular review through monthly investment reports, and consideration at meetings of the Board and the Investment Committee.
- **Credit risks:** In the provision of its services, BHSF has a number of counterparty arrangements in place to carry out its operations. Counterparties include reinsurers, investment counterparties, banks, insurance intermediaries, trade debtors, and other non-insurance counterparties. Credit control and other monitoring procedures are in place to manage these risks.
- **Liquidity risks:** In servicing its business, BHSF ensures that it has the ability to meet cash and collateral obligations, without incurring substantial losses.

The Group and each trading subsidiary aims to maintain a working capital buffer to mitigate against unexpected cash flow requirements.

- Operational risks: BHSF Group has an operational value chain, including product development, sales, marketing, underwriting, and customer services (consisting of claims, after sales support, policy administration, complaints management, payments, and employee benefits services). In addition, it has supporting operations of IT, HR, facilities management and finance. BHSF has a business continuity plan and Group insurances in place to mitigate against significant operational business disruption.
- Pension obligations risks: BHSF Group provides retirement benefits to current and former employees through defined benefits (DB) and defined contribution (DC) pension schemes. BHSF Group has an obligation through the auto-enrolment scheme to make pensions available to all employees, and to make pension contributions. The Group also has an obligation to address any deficits in the closed DB pension scheme. The Group monitors the pension obligations risk with the assistance of external actuarial experts.

Further analysis of risk is provided in the notes of the accounts.

Board oversight of risk management systems

The Risk and Compliance Committee keeps under review the effectiveness of the Group's risk management systems, and it regularly reviews the risk reports to ensure that appropriate systems of monitoring and control are in place.

During the year, further significant progress was made in enhancing the Board's risk management policies.

The Group continues to work towards fully embedding these policies throughout the business.

Performance

The performance of the Group's business is set out in the financial statements. The Board considers 2017's performance to have been satisfactory.

Revenues have increased, driven by growing sales in the occupational health division, the acquisition of the Benenden book of health cash plans, and a price increase necessitated by the increase in insurance premium tax in the year. Unfortunately, costs have also increased, driven by ongoing implementation costs for new regulations, as well as substantial investment in our IT infrastructure. We expect significant expenditure in these areas to continue into 2018 as further regulatory projects commence.

These increasing costs resulted in a reduced operating profit on the insurance business. The occupational health division saw improved performance compared to the previous year, but remains loss-making. A further improvement in performance is expected in 2018 and subsequent years.

The results for the year are bolstered by a strong investment result, thanks to buoyant market conditions at the year end. Furthermore, the triennial valuation of our defined benefit pension scheme returned a significantly reduced deficit.

Regulatory solvency ratios remain strong for both the insurer, BHSF Limited, and the Group as a whole.

Certain key performance indicators are regularly considered by the Board to monitor the performance of the Group.

These include:

KPI	2017	2016
Total Revenue	£44.3m	£40.8m
Total Revenue growth rate	8.6%	3.1%
Insurance claims ratio*	69.4%	70.6%
Insurance expense ratio*	29.9%	27.2%
Insurance underwriting result	£0.26m	£0.78m
Increase/(reduction) in policies underwritten	14.0%	(4.6%)
Solvency:		
BHSF Limited	189%	209%
BHSF Group	216%	209%
Non-insurance business margin	£(1.4)m	£(2.3)m
Investment income & net investment returns	£2.2m	£2.2m

* calculated as percentages of earned premiums.

Further information on the Group's performance in 2017, and its future prospects, is set out in the Group Chief Executive's Review on pages 4 to 6, which forms part of this Strategic Report.

This report was approved by the Board on 6 June 2018 and signed on its behalf by;



Ian R Galer
Group Chief Executive

Directors' Report

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 December 2017.

Independent non-executive directors

Dr Andrew Milner LL.D, DMS, DipM,
FIMgt, MCIM, Chairman

Jane Dale BSc, FCA
(resigned 18 May 2017)

William Begg BSc
(retired 2 May 2017)

Jill Bonehill

Dr Carol Coombes OBE, D Univ

Gary Cowdrill FCA

Hilary D'Cruz LL.B (Hons)
(resigned 28 February 2017)

John Hardy B.Com, FIA

Neil Mackay BSc, FCA
(retired 14 January 2018)

Chris Wiggin BA (Hons)
(appointed 17 July 2017)

Executive directors

Peter Maskell FCII, Chartered Insurer
(retired 31 August 2017)

Ian Galer BA (Hons), FCA,
Group Chief Executive

Geoff Guerin MBA, BA (Hons), C.Dir,
FloD, Dip CII Chief Operations Officer

Brian Hall FInstSMM, C.Dir, FloD,
Chief Commercial Officer

Adrian Hope MA, BA (Hons), MBCS,
Chief Information Officer
(appointed 5 October 2017)

Dr Philip McCrea Mb, Bch, BAO, MD,
MRCP (UK), FRCP (Glasg), MFOM,
MFOM (RCPI) Chief Medical Officer
(resigned 1 April 2018)

David Nuttall MBA, Chartered MCIPD,
Chief People Officer

Tom Ross MMath (Hons), ACA, Chief
Finance Officer
(appointed 13 November 2017)

Charlotte Taylor MA, BA (Hons), ACIS,
LLDip, Company Secretary
(resigned 1 April 2018)

Honorary officers

The Right Worshipful The Lord Mayor of Birmingham, Councillor Anne Underwood, kindly accepted the office of President in accordance with the tradition dating from 1873. Dr. Paul Kanas continues as Vice-President.



The Lord Mayor, Councillor Anne Underwood, with Peter Maskell, Andrew Milner and Ian Galer

Committees

There are four board committees:

Audit Committee

Gary Cowdrill (Chairman)

John Hardy

Neil Mackay (retired 14 January 2018)

This committee monitors the adequacy of the Group's internal control systems, accounting policies and financial reports. It also manages the relationship with the external auditors and oversees the outsourced internal audit function.

Investment Committee

John Hardy (Chairman)

Jane Dale (resigned 18 May 2017)

Ian Galer

Geoff Guerin

Peter Maskell (retired 31 August 2017)

The committee's responsibilities include recommending to the Board the investment policy, which currently requires a balanced investment portfolio. Also to review the performance of the portfolio and the benchmarks agreed with the investment managers. The committee also monitors liquidity and counterparty risks, and ensures that market and credit risks are within the Group's risk appetite.

Remuneration and Nomination Committee

Neil Mackay

(Chairman, retired 14 January 2018)

Carol Coombes

Jane Dale (resigned 18 May 2017)

Andrew Milner

Peter Maskell (retired 31 August 2017)

David Nuttall

Chris Wiggin (appointed 17 July 2017)

The responsibilities of this committee include recommending to the Board candidates for appointment as directors. It also approves the terms of employment of executive directors and other approved persons.

Risk and Compliance Committee

John Hardy (Chairman)

Jill Bonehill

Gary Cowdrill

Ian Galer

Geoff Guerin

Neil Mackay (retired 14 January 2018)

Peter Maskell (retired 31 August 2017)

This committee advises the Board on the risk management strategy, risk management policies, the ORSA, and the implications of proposed strategic transactions and compliance issues. It regularly reviews risk reports detailing the risk profile of the Group.

The boards and its committees keep their effectiveness under review by a process of self assessment.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with the UK Generally Accepted Accounting Practice (FRS 102 and FRS 103).

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 company and the Group, and of the surplus and deficit of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, to disclose with reasonable accuracy at any time the financial position of the company and the Group, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements, and other information included in annual reports, may differ from legislation in different jurisdictions.

Directors' indemnities

The Group maintained throughout the year, and at the date of the approval of this report, liability insurance for its directors and officers. This is a qualifying provision for the purpose of the Companies Act 2006.

Political and charitable donations

The Group donated £51,952 (2016: £53,692) by gift aid during the year. The Group made no political donations during the year (2016: nil).

Statement regarding information given to the auditor

So far, as each of the directors is aware at the time the report is approved:

- There is no relevant audit information of which the auditor is unaware.
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the auditor is aware of that information.

Advisors

- Principal bankers - The Royal Bank of Scotland plc
- Principal solicitors - Weightmans LLP, Integra Legal Limited, and Shakespeare Martineau LLP
- Investment managers - UBS AG, London Branch
- Property advisors - Fisher German LLP
- Pension fund actuary and actuarial advisor to the Group - Quattro Pensions
- Pension advisors - Capita Employee Benefits (Consulting) Limited
- Solvency II actuarial advisors - OAC
- PR advisors - Willoughby Public Relations Limited
- Corporate finance advisors - Orbis Partners Limited
- Outsourced internal audit service provider - RSM Risk Assurance Services LLP
- Corporate tax advisors - PwC

Staff

The Group places great importance on the recruitment, training and development of its people, recognising the vital contribution made by colleagues at all levels of the business. This has culminated in the achievement of the Investor in People award in 2002, for which we have been re-accredited triennially. In 2004, we also achieved ISO 9001:2000, and we have now been re-certified in 2017 under ISO 9001:2015 for the next three years.



The Group is committed to involving colleagues in the business, and giving them the opportunity to contribute. There is a philosophy of open and two-way communication; information is shared and views sought through a number of feedback mechanisms. There are regular meetings of all colleagues, in order to disseminate information and hear views expressed. There is also a monthly newsletter for colleagues, The Star.

The Group is an equal opportunities employer and recruitment, training and promotion are solely on the basis of business needs and the ability of each individual to meet the job requirements. Full and fair consideration is given to application from, and the continuing employment of, people with disabilities. The Group has put in place and observes a diversity policy, and it also complies with the Working Time Directive.

Furthermore, the Group is committed to providing a healthy and safe working environment for all employees, and the directors regularly review the assessments made.

Appreciation

The directors record their thanks to the management and staff for their hard work during the year. The directors also extend grateful thanks to all employers, administrators and delegates for their support and practical assistance, which has substantially assisted the service that the Group has provided to customers.

This report was approved by the board on 6 June 2018 and signed on its behalf by;

Ian R Galer
Group Chief Executive

Directors' profiles



Andrew Milner is an experienced local authority Chief Officer, NHS Director and company director. He was previously a director of BHSF from 2001 to 2009, and he was reappointed to the Group Board in 2013. He became Senior Independent Director in 2016 and was appointed Chairman in May 2017.



Ian Galer joined BHSF in 2013, after many years with BDO Binder Hamlyn and Wesleyan Assurance. He was appointed Group Finance Director in 2014 and became Group Chief Executive in September 2017.



Jill Bonehill has had substantial general insurance experience, and now works for the Chartered Institute of Payroll Professionals. She became a director of BHSF Limited and BHSF Employee Benefits Limited in May 2014 and joined the Group Board in 2015.



Carol Coombes ran Cracking Leadership, following senior roles with Citizens Advice Bureaux, Common Purpose and Caret. She joined the Board of BHSF Group in 2014.



Adrian Hope was appointed IT Director of the Group's operating company boards in October 2016, having previously held senior appointments at a number of major businesses. He joined the Board of BHSF Group Limited in October 2017 and is Chief Information Officer.



David Nuttall joined BHSF as Company Secretary in 2002. He served several of our operating companies as Customer Service Director from 2008, and HR and Operations Director from 2010. He joined the Board of BHSF Group Limited in 2014 and is Chief People Officer.



Tom Ross joined BHSF in 2014 as Financial Accountant, and was appointed Head of Finance in March 2015. He joined the Board of BHSF Group Limited in November 2017 and is Chief Finance Officer.



Christopher Wiggin has spent most of his career in the insurance and risk law business, opening BLM's Birmingham office in 1990 and taking the company from just two to 185 employees. He now works for Shakespeare Martineau and joined the Board of BHSF Group Limited in July 2017.



Gary Cowdrill has spent most of his career in financial services. He was Group Finance Director of the West Bromwich Building Society, and currently he is Managing Director of Board Evaluation Limited. He joined the board of BHSF Group Limited in 2015, and became Senior Independent Director in May 2017.



Geoff Guerin joined BHSF in 2006. He has held a number of positions throughout the business, since starting his career with BHSF on our Graduate Development Programme. He joined the Board of BHSF Group Limited in 2014 and is Chief Operations Officer.



Brian Hall - Group Executive Director and Managing Director, BHSF Employee Benefits Limited, has been with BHSF since 2001. He was elected to the Board of BHSF Limited in 2001 as Sales and Marketing Director, and of BHSF Group Limited in 2003. He is Chief Commercial Officer.



John Hardy became a director of BHSF Group Limited in 2014. He spent most of his career up until retirement as an actuary with Britannic Assurance.

Officers

President

The Right Worshipful the Lord Mayor of Birmingham,
Councillor Anne Underwood

Vice Presidents

Dr Paul Kanas BM, BS, MRCP, FFOM

Life Members

Stephen G Hall FIPPM

Albert Harrison

Dr Paul Kanas BM, BS, MRCP, FFOM

David J Read JP, FFA, FICM, FIAB



Philip McCrea is an eminent occupational health physician and former owner of OHC, which BHSF acquired in 2013. He became Medical Director of BHSF Occupational Health Limited in October 2014 and Managing Director in February 2015. He is also Chief Medical Officer for the Group.



Charlotte Taylor joined BHSF as Assistant Company Secretary in 2005. She became Company Secretary in 2008. In April 2018, she became Group Company Secretary.

Senior managers



Sally Barker
Head of Finance



Richard Bisiker
Head of Learning and Development



Paul Brady
Head of Commercial Development



Luke Brown
Head of Operations (Occupational Health)



Diane Burdett
Director of Marketing



Jonathan Byfield
Head of Intermediary Division



Richard Evanson
Head of IT



Martin Guyler
Head of Facilities



Steve Munday
Head of Technical and Compliance



Shelley Rowley
Head of Marketing



Steve Sperber
Senior Medical Officer



Melanie Tavener
Head of HR



Mike Tresham
Head of Insurance Operations

Corporate social responsibility

For BHSF, corporate responsibility means trading ethically and ensuring that, in everything we do, we meet the highest standards of business conduct. It means making the most effective use of valuable resources, like water and electricity, and respecting the environment. It means offering support to those less fortunate than ourselves. It means promoting healthy lifestyle choices for our customers and our employees. It means providing an environment where we can attract and retain the best people, who work hard to provide the high levels of service for which BHSF is renowned. It is being a good corporate citizen. These pages help a wide audience in understanding how BHSF is performing on these important issues.

Trading responsibly

In meeting the highest standards of business conduct:

- We are required to be compliant with all legal requirements under the Financial Services and Markets Act 2000, and ensure that all customer-facing staff meet the standards through our competency-testing programme.
- We publish a Business Ethics Policy – see page 37.

- Our approach to constructive feedback and complaints ensures excellence through continuous improvement.
- Our operations are conducted to the highest of standards through our recognition as an Investor in People and ISO 9001 quality accreditation, and, in relation to the occupational health division, SEQOHS accreditation.
- We are actively involved with appropriate professional and market bodies, including the CBI, IoD, CIPD, RoSPA, Greater Birmingham Chambers of Commerce and the Birmingham Insurance Institute.

Respect for the environment

We recognise our responsibility to reduce the direct impact of our operations on the environment. Our priority is to minimise our environmental impacts by reducing the carbon intensity of our activities by good business practices.

- We recycle whatever we can and we purchase recycled paper.
- Our car fleet is sourced on the basis of low emissions.
- We operate an energy-management system at our head office; Gamgee House.

CSR Partners



Christmas lights switch-on at the hospice

Acorns Children's Hospice provides care and support for life-limited and life-threatened West Midlands youngsters, and their families.

In 2017, colleagues assisted with gardening activities at the Selly Oak hospice.

BHSF catered for the Acorns Memorial Day, and also organised food for the Christmas Lights switch-on, where colleagues joined in the carol singing, after having a tour of the hospice.

2017 was Acorns' year to take part in BHSF's annual Christmas card competition.



Quiz night winners

Alzheimer's Society

The Alzheimer's Society's vision is a world without dementia. Dementia is one of the biggest health and care challenges we face. By 2021, over a million people will be living with the condition.

BHSF has been raising funds for the society in a variety of ways, from quizzes, bake sales and dress down days. 'Forget-me-not' pin badges are for sale in the Gamgee House reception.

All of the funds raised aid the society in its research activities, and to support those with dementia, along with their friends and family.



The Blooming Great Tea Party

Marie Curie cares for people living with terminal illnesses, and also supports their families.

BHSF sponsored the Marie Curie West Midlands Hospice for a day, and colleagues were invited for a tour.

BHSF also supports Marie Curie through the West Midlands Brain Game, and the Blooming Great Tea Party.

Social responsibility

We believe strongly that businesses like ours should act in an ethical and socially-responsible way, and that we should put something back into society as part and parcel of our business operations. We aim to make a positive impact by contributing to the wellbeing of our six CSR partners and others through a community action programme, involving funding, plus the time and expertise of our employees.

A cash grant is made annually to each of our CSR partners.

Healthy choices

We recognise that, as a health and wellbeing business, we have a role to play in promoting healthy eating and active lifestyles.

- Our products range from encouraging lifestyle assessment and change, to preventative care and support.
- We provide colleagues with a variety of healthy options, including reduced-cost gym memberships and smoking-cessation programmes.
- Activities such as the St Basils Walk and the Global Corporate Challenge encourage many colleagues to increase their fitness levels and eat healthier diets.

A great place to work

To be successful in business, we aim to be an employer of choice and therefore have created an environment that attracts and retains the right people. Our people are a vital asset and we provide a working atmosphere in which our employees can develop and achieve their full potential.

- We promote a healthy work-life balance for colleagues.
- Our CSR committee regularly organises quiz nights, charitable and sporting events.
- The Investors in People accreditation recognises our dedicated approach to the training and development of those who work for us, with many colleagues attaining professional and vocational qualifications with our support and funding.
- Our talent management programme allows colleagues to grow within the business, to enhance valuable skills, experience and knowledge.
- We expect our team to work hard, and in return we reward them well and provide them with secure employment.



St Basils Walk finish line

St Basils is a West Midlands charity that works with 16-25 year olds who are homeless, or at risk of becoming homeless.

Colleagues across BHSF's nationwide offices collected essential household items for youngsters moving in to their first homes for the Starter Pack initiative.

We donated a total of four packs. Twelve colleagues took part in the 'The Cotswold Challenge', a 26 mile long walk which raised over £5,700 for the charity. In November, seven colleagues participated in The Big SleepOut, braving the elements to spend the night sleeping rough with only a cardboard box and plastic sheet.

Throughout December, colleagues were able to 'Buy a St Basils Bauble' and place it on the company Christmas tree. Colleagues also attended a Christmas Concert presented by the CBSO in aid of the charity.

The Oratory RC Primary School

BHSF have supported The Oratory School in Ladywood for many years.

We have provided the school with educational resources such as cooking facilities, sports equipment and reading material. Pupils at The Oratory also design BHSF's corporate Christmas card every two years.

The Ladywood Project is situated near Gamgee House, in an area known for high levels of unemployment and child poverty. The Project provides financial, emotional, health-related and social support for families and individuals, and advice on issues such as debt, housing, benefits, child-related issues and domestic abuse. The Project also provides child play and stay mornings, leisure activities, and subsidised trips for local families.

In 2017, we printed the Project's Annual Report, as we do each year, printed posters, and helped to fund different activities. Colleagues donated towards a mother and baby collection in aid of families supported by the Project. BHSF provided the Project with a washing machine, for use by the local community. The Project held a jewellery sale at Gamgee House to raise funds. In addition, colleagues provided wrapped presents for the Christmas party.

Other good causes supported include:

- | | |
|--|---|
| • Adult Cystic Fibrosis | • Focus Birmingham |
| • Arrive Alive Appeal | • Grenfell Tower (London Fire Fund) |
| • Birmingham Children's Hospital Charity | • Heartlands Hospital Cystic Fibrosis Centre Appeal |
| • Birmingham St Mary's Hospice | • Macmillan Cancer Support |
| • Blood Wise | • The Prince's Trust |
| • The Bradley Lowery Foundation | • Red Nose Day |
| • Breast Cancer Care | • Rett UK |
| • British Red Cross | • Sands |
| • Cancer Research UK | • Save the Children |
| • Children in Need | • Sense |
| • Children's Liver Disease Foundation | • Sports Relief |
| • Compton Hospice | • St John's & St Peter's Church |
| • Crohn's and Colitis UK | • Stroke Association |
| • Cure Leukaemia | • Team Verrico |
| • Encephalitis Society | • MND Association |
| | • Wellchild |

Independent auditor's report

Independent auditor's report to the members of BHSF Group Limited

Opinion

We have audited the financial statements of BHSF Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2017 which comprise the Group Income Statement, the Group Statement of Total Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statements of Changes in Equity, the Group 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 applicable in the UK and Republic of Ireland, and Financial Reporting Standard 103 Insurance Contracts – Consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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 or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter 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 Directors' report for the financial year, for which the financial statements are prepared, is consistent with the financial statements; and

- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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.

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 at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Stephen Hale
(Senior Statutory Auditor)
for and on behalf of BDO LLP,
Statutory Auditor
Birmingham, United Kingdom

June 2018

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

Group Income Statement

for the year ended 31 December 2017

Technical and Non-technical Accounts – General Business

TECHNICAL ACCOUNT	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
PREMIUMS					
Gross premiums written	3	37,185		35,402	
Outward reinsurance premiums	5	(367)		(383)	
		<u>36,818</u>		<u>35,019</u>	
Change in the provision for unearned premiums		<u>338</u>		<u>39</u>	
Earned premiums net of reinsurance			37,156		35,058
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT			52		56
CLAIMS					
Gross amount		(26,236)		(24,765)	
Reinsurer's share	5	<u>177</u>		<u>171</u>	
		<u>(26,059)</u>		<u>(24,594)</u>	
Change in the provision for outstanding claims:					
Gross amount		238		(157)	
Reinsurer's share	5	<u>34</u>		<u>6</u>	
		<u>272</u>		<u>(151)</u>	
Claims incurred net of reinsurance			(25,787)		(24,745)
			<u>11,421</u>		<u>10,369</u>
NET OPERATING EXPENSES	6		(11,111)		(9,538)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			<u>310</u>		<u>831</u>

NON-TECHNICAL ACCOUNT

BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		310	831
Investment income	9	897	687
Unrealised gains on investments		1,410	1,617
Allocated investment return transferred to the technical account		(52)	(56)
Investment expenses and charges		(109)	(105)
Other income	10	7,154	5,426
Other charges	11	(8,512)	(7,757)
Net interest cost on pension scheme liability	14	(53)	(6)
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION	12	<u>1,045</u>	<u>637</u>
Tax charge on surplus on ordinary activities	13	(140)	(283)
SURPLUS FOR THE FINANCIAL YEAR		<u>905</u>	<u>354</u>

All the above amounts relate to continuing operations.
The notes on pages 21-36 form part of these financial statements.

Group Statement of Total Comprehensive Income

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Surplus for the financial year		905	354
Actuarial gains/(losses) net of deferred tax	14	908	(1,419)
TOTAL COMPREHENSIVE INCOME/(EXPENDITURE) FOR THE FINANCIAL YEAR		<u>1,813</u>	<u>(1,065)</u>

All the above amounts relate to continuing operations.
The notes on pages 21-36 form part of these financial statements.

Statements of Financial Position

for the year ended 31 December 2017

			Group			Company (number 4767689)	
ASSETS	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000	2017 £'000	2016 £'000
INTANGIBLE ASSETS							
Goodwill	15	800		1,104		-	-
Other intangibles	15	137		190		-	-
			937		1,294	-	-
INVESTMENTS							
Land and buildings	16	2,447		2,087		-	-
Investment in subsidiaries	17	-		-		2,640	1,840
Other financial investments	18	23,599		22,495		-	-
			26,046		24,582	2,640	1,840
REINSURER'S SHARE OF TECHNICAL PROVISIONS							
	19		192		158	-	-
DEBTORS							
Debtors arising out of direct insurance operations	20	1,881		1,851		-	-
Amounts due from group undertakings		-		-		-	204
Other debtors	21	1,810		1,564		-	-
			3,691		3,415	-	204
OTHER ASSETS							
Tangible fixed assets	22	687		536		-	-
Stock		5		7		-	-
Cash at bank and in hand		6,531		7,577		357	87
			7,223		8,120	357	87
PREPAYMENTS AND ACCRUED INCOME							
			364		303	-	14
TOTAL ASSETS			38,453		37,872	2,997	2,145
LIABILITIES							
ACCUMULATED FUND							
			30,989		29,176	2,658	1,622
TECHNICAL PROVISIONS							
	23						
Provision for unearned premiums		430		311		-	-
Provision for claims		1,725		1,962		-	-
			2,155		2,273	-	-
PROVISION FOR OTHER RISKS - PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS							
Pension scheme liability	14	881		1,913		-	-
Other provisions	24	272		277		-	-
			1,153		2,190	-	-
CREDITORS							
Amounts owed to credit institutions	25	319		504		319	504
Other creditors including taxation and social security	26	2,181		2,712		-	-
			2,500		3,216	319	504
ACCRUALS AND DEFERRED INCOME							
			1,656		1,017	20	19
TOTAL LIABILITIES			38,453		37,872	2,997	2,145
PROFIT/(LOSS) OF BHSF GROUP LIMITED SINGLE ENTITY							
						1,036	(1,842)

No Company total comprehensive income statement account is included in these financial statements as permitted by section 408(3) of the Companies Act 2006.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 6 June 2018.

The notes on pages 21-36 form part of these financial statements.



Ian R Galer,
Group Chief Executive

Statements of Changes in Equity

for the year ended 31 December 2017

	Group Accumulated Fund £'000	Company Accumulated Fund £'000
BALANCE AT 1 JANUARY 2016	30,241	3,464
CHANGES IN EQUITY FOR THE YEAR ENDING 31 DECEMBER 2016		
Surplus/(deficit) for the financial year	354	(1,842)
Other comprehensive (expenditure)/income for the financial year	(1,419)	-
Total comprehensive (expenditure)/income for the financial year	(1,065)	(1,842)
BALANCE AT 31 DECEMBER 2016	29,176	1,622
CHANGES IN EQUITY FOR THE YEAR ENDING 31 DECEMBER 2017		
Surplus for the financial year	905	1,036
Other comprehensive income for the financial year	908	-
Total comprehensive income for the financial year	1,813	1,036
BALANCE AT 31 DECEMBER 2017	30,989	2,658

The notes on pages 21-36 form part of these financial statements.

Group Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the financial year before tax		1,045	637
Adjustments for:			
Realised (gains)/losses on sale of investments	9	(164)	113
Depreciation and amortisation	12	592	884
Goodwill impairment loss	12	-	612
Unrealised investment gains		(1,050)	(1,270)
Revaluation gains on land and buildings		(360)	(347)
Other non-cash items of comprehensive income		53	53
(Increase)/Decrease in insurance debtors		(64)	274
(Increase)/Decrease in trade and other debtors excluding tax		(502)	378
Decrease/(Increase) in stock		2	(2)
(Decrease)/Increase in insurance creditors		(118)	118
Increase in trade and other creditors excluding tax and pension scheme		496	350
(Decrease)/Increase in other provisions		(48)	41
Defined benefit pension contributions	14	-	(4)
Investment portfolio purchases		(6,019)	(7,611)
Investment portfolio sales		5,711	8,790
Corporation tax paid		(158)	(98)
NET (OUT)/INFLOW FROM OPERATING ACTIVITIES		(584)	2,918
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets	22	(386)	(177)
Net cash outflow on purchase of subsidiary undertakings	17	-	(1,400)
Payment of deferred consideration on past acquisitions		(300)	(141)
NET OUTFLOW FROM INVESTING ACTIVITIES		(686)	(1,718)
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement on revolving credit facility net of arrangement fees		(200)	485
NET (OUT)/INFLOW FROM FINANCING ACTIVITIES		(200)	485
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,470)	1,685
Cash and cash equivalents at 1 January		8,722	7,024
Effect of exchange rate fluctuations on cash balances		4	13
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29	7,256	8,722

The notes on pages 21-36 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2017

1. BASIS OF PREPARATION

The accounts have been prepared in accordance with the provisions of SI 2008 No 410 Schedule 3 of the Companies Act 2006, and the following financial reporting standards (FRSs) issued by the Financial Reporting Council:

- FRS 102 The Financial Reporting Standard Applicable in the UK and Ireland
- FRS 103 Insurance Contracts

The financial statements cover the year ended 31 December 2017. The comparative figures cover the year ended 31 December 2016.

The preparation of financial statements in compliance with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies.

In preparing the separate financial statements of the Company and Group, advantage has been taken of the following disclosure exemptions available under FRS 102:

- No cash flow statement nor financial instrument disclosures have been presented for the Company; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included in the totals for the Group as a whole.

Compliance with FRS 102 requires departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of the departure is given in the accounting policy note relating to land and buildings.

1A. Accounting policies

The following key accounting policies are applied in the preparation of the accounts.

a) Basis of consolidation

The group financial statements combine the results of the Company and all its subsidiaries after eliminating intra-group transactions. The results of subsidiaries acquired have been included from the date of acquisition.

Goodwill on consolidation, representing the excess of the fair value of the consideration given over the fair value of the net assets acquired, in respect of acquisitions is capitalised and is amortised over its estimated useful life.

Intangibles acquired which have a fair value in excess of their book value are similarly capitalised and amortised over their estimated useful life.

b) Premiums

Gross premiums written are health cash plan, Plan4Life cancer cover and personal accident premiums excluding insurance premium tax.

Earned premiums, all of which arise in the United Kingdom, represent premiums from policyholders for the year, excluding insurance premium tax, and include an estimate of amounts due but not received at 31 December. Provision is made for premiums received but not earned at the statement of financial position date calculated on a time-apportioned basis.

c) Reinsurance

The Group partially reinsures personal accident and cancer risk under a reinsurance agreement. Reinsurance premiums are accounted for in the technical account on the same basis as the relevant premiums. Similarly reinsurance recoveries on claims payable are accounted for on the same basis as the relevant claims.

Reinsurance assets represent amounts receivable from the reinsurer in relation to ceded insurance liabilities

d) Claims

Claims payable are recognised in the accounting period in which the insured event occurs.

Claims paid consist of claim payments and the internal and external costs of settling those claims.

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 settled or notified based on statistical methods. Included within the provision is an estimate of the claims handling costs that will be incurred in settling outstanding claims.

e) Acquisition costs

The costs of acquiring new business which are incurred during the financial year are deferred to the extent that they relate to unearned premiums at the statement of financial position date. During the current and preceding financial years such deferred costs were not material and therefore not separately disclosed. All acquisition costs are therefore charged to the Income Statement.

f) Leases

Operating lease rentals are charged to the Income Statement on a straight line basis over the period of the lease.

g) Investment income

Investment income comprises interest, dividends, rents and realised gains. Dividends are recorded on the date on which the shares are quoted ex-dividend; and interest, rents and expenses are accounted for on an accruals basis. All investment income is initially recognised in the non-technical account.

An allocation of the investment return is made between the non-technical and technical accounts for general business so as to reflect the investment return on investments supporting technical provisions.

Realised gains or losses represent the difference between net sales proceeds and purchase price or market value if held at the previous statement of financial position date and are initially recognised in the non-technical account.

h) Unrealised gains and losses

Unrealised gains or losses represent the difference between the valuation of investments at the statement of financial position date and their purchase price if acquired during the year and the market value at the previous statement of financial position date for investments held throughout the year. All unrealised gains or losses are initially recognised in the non-technical account.

i) Other income

Other income includes commission receivable on the transaction of insurance business fees receivable on invoiced employee and employer related benefits, and amounts receivable for occupational health services provided during the period, excluding value added tax.

Turnover is recognised when the relevant services are carried out. For annual contracts turnover is recognised on an incremental basis appropriate to the accounting period.

j) Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and

- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences.

The current income tax charge and deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

k) Tangible fixed assets

Tangible fixed assets are stated at depreciated historical cost.

Depreciation is calculated to write down the cost of tangible fixed assets by equal annual instalments over their expected useful lives.

The rates generally applicable during the year were:

Furniture and equipment	10%
Computer equipment	20%
Laptops	33%
Computer software (core systems)	20%
Computer software (other)	50%
Medical equipment	15%
Assets under construction	None

l) Land and buildings

Land and buildings other than those occupied by the Group are treated as investment properties and are valued at open market value as determined by independent professional advisors every three years. In the intervening years these valuations are updated by the Directors with the assistance of independent professional advice as necessary. The last professional valuation of all such group properties was carried out at 31 December 2017 by Fisher German LLP (Chartered Surveyors).

Land and buildings occupied by the Group for its own purposes are included at market value as determined by independent professional advisors every three years. In the intervening years these valuations are updated by the Directors with the assistance of independent professional advice as necessary. The last professional valuation of the Group headquarters, Gamgee House, was carried out at 31 December 2017 by Sellers (Chartered Surveyors).

Depreciation is provided on freehold buildings used by the Group for its own purposes so as to write-off the valuations less their estimated residual value over their estimated lives. However, given the Group's policy of formally revaluing the property every three years, any charges for depreciation would be immaterial in relation to the financial statements. The Directors review the carrying value of the property for impairment on an annual basis.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

m) Acquisitions

The financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Group Statement of Comprehensive Income from the date on which control is obtained

n) Investments

Investment balances represent the value of BHSF Limited's investment portfolio and includes equities, corporate bonds, government bonds and investments in collective investment funds. Investments are recognised when BHSF Limited becomes contractual owner of the instrument and are recognised initially at their cost to BHSF Limited.

Whilst held, BHSF Limited values equity investments and investments in units of collective investment funds at fair value through profit and loss, where fair value is taken to be the bid price of the instrument at the statement of financial position date. BHSF Limited makes use of the accounting policy choice available under section 11.14(b) of FRS 102 to also designate corporate and government bond instruments as fair value through profit and loss. See section 1B for further information.

Investments are de-recognised when BHSF Limited ceases to be the contractual owner of the instrument or, where applicable, when the instrument matures and contractual rights expire.

Investments in subsidiary undertakings are included at cost, less provision for permanent diminution in value.

o) Other financial instruments

The Group holds cash and debtor assets and long and short-term creditor liabilities, including borrowings from credit institutions, which are classed as financial assets and liabilities. Cash balances are recorded at the statement of financial position date at their face value. Debtors and creditors are measured at their amortised cost value using the effective interest rate where durations are longer than one year. Where duration is shorter than one year, which is the case for all debtors and all creditors except borrowings, financial assets and liabilities are measured at their cash settlement value. Borrowings are measured at their amortised cost using the effective interest rate method.

p) Pension schemes

The Group made contributions to two different pension schemes during the year.

Defined benefit scheme:

The difference between the fair value of the assets held in the Group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Group's statement of financial position as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the Group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Defined contribution scheme:

The contributions to a group personal pension scheme have been charged to both the technical and non-technical accounts as appropriate in the year to which they relate.

q) Liability adequacy test

The Group performs a liability adequacy test at each statement of financial position date. This test estimates all future cash flows on insurance contracts in force at the statement of financial position date, including premiums received, claims incurred, and related claims processing and other expenses. If the test identifies any shortfall in the carrying value of insurance liabilities, the shortfall is recognised and an extra charge taken to the income statement.

No such charges have arisen in the current or prior financial years.

r) Foreign Currency Transactions

Foreign Currency transactions are translated into the Group's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in comprehensive income.

1B. Critical judgements in the application of accounting policies

In preparing these financial statements under the above policies, the Directors have made the following critical judgements:

a) Financial instrument classifications (note 18)

The financial statements include £22,874k (2016: £21,350k) in respect of financial instruments which are measured at fair value through profit and loss. This is based on the judgement that the default amortised cost measurement basis under FRS 102 for the £9,302k (2016: £8,547k) of investments in debt instruments,

including corporate and government bonds, does not provide as relevant information to the users of these financial statements as fair value does because these investments are managed and monitored by the Group on the basis of their market value.

b) Indicators of impairment in assets

The Directors exercise significant judgement in assessing whether there are indications of impairment in assets, and in particular in those assets that represent investments in subsidiaries and goodwill and other intangible assets. Factors taken into account when determining whether or not to impair assets include the economic viability and expected future financial performance of the asset, and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

1C. Key sources of estimation uncertainty

In preparing these financial statements, the Directors have made the following significant estimates:

a) Technical provisions – claims provision (note 23)

The financial statements include £1,725k (2016: £1,962k) in respect of technical provision liabilities for claims. These provide for the estimated costs of claims incurred up to the statement of financial position date and outstanding at that date.

Technical provisions for health cash plans and personal accident products are projections based on recent historic claims experience and hence there is a risk that the actual claims that will be made by policyholders in respect of events incurred up to the statement of financial position date will differ significantly from the projections based on historic data. The amount of reinsurance recoverable on personal accident claims is estimated based on the projection of claims payments made here.

The basis of the estimated value of the technical provision for cancer cover has changed during the year. Technical provisions for cancer cover remain based on statistical rates of cancer incidence published by the Office for National Statistics, but now incorporate analysis of policyholders and proportionate likelihood of diagnosis, against type of cover and therefore settlement value in event of a claim. Less emphasis is now given to the length of time a policyholder has held a policy. The impact of this change in estimate has been to reduce the liability and contributes towards the total income statement credit in respect of technical provisions movement, by £278k.

There remains the risk that the actual claims that will be made by policyholders in respect of events incurred up to the statement of financial position date will differ significantly from the patterns suggested by the historic statistics.

Significant changes to actual claims experience over the next financial year could result in significant changes to the carrying value of technical provisions over the next financial year.

b) Defined benefit pension scheme liability (note 14)

The financial statements include a net defined benefit pension scheme liability of £881k (2016: £1,913k), comprising assets of £12,924k (2016: £12,554k) and liabilities of £13,805k (2016: £14,467k). These liabilities represent the costs expected to be incurred in making pension payments to current or past employees who are members of the scheme.

The valuation of the pension scheme liability is determined on an actuarial basis using the projected unit method and are discounted at a rate using the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. Assumptions are also made about the mortality of the beneficiaries of the pension scheme, and future rates of inflation. The assumptions underlying this calculation are discussed in more detail in note 14.

Significant changes to the assumptions underlying these calculations over the next financial year could result in significant changes to the carrying value of the pension scheme liability.

c) Investments in subsidiaries and goodwill and other intangibles (notes 15 and 17)

Investments in subsidiaries within the Company are measured at cost less accumulated impairment. Goodwill balances within the Group represent the excess over net asset value paid for the acquisition of subsidiary companies. Other intangible assets represent the value of customer contracts and relationships within acquired companies. Goodwill and other intangibles are measured at cost less accumulated amortisation and accumulated impairment.

In all cases, impairment is judged on the basis of the present value of future cash flows expected to flow from the acquired business, based on approved budgets and forecasts. Differences between the forecasts used to arrive at the net present value and actual outturn could result in significant changes to the carrying value of investment or goodwill balances over the next 12 months.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

d) Investment property valuation (note 16)

The financial statements include revaluation gains of £360k, comprising £200k on investment properties and £160k on owner-occupied properties.

The valuation uplifts are based on reports provided by valuation experts, but which nevertheless are a source of estimation uncertainty due to the nature of property valuations. Key assumptions underlying the valuations include:

- Market conditions based on transactions involving similar properties in similar areas;
- For investment properties, the amount a reasonable, independent third party would be willing to pay for the hope that development rights might be secured over the property in the future; and
- For investment properties occupied by a tenant, the likely length of tenancy.

Events over the next 12 months which materially change any of these conditions could potentially result in a material change in the value of property.

In particular:

- An increase or decrease in prevailing market conditions equivalent to 10% of property prices could increase or decrease the recognised values by £245k.
- The securing of development rights over parts of the investment property could increase the value by £2,785k.
- The extension of existing tenancy could decrease the value of investment property by £200k.

In particular:

- Note 1A (b) describes the accounting for the premium income arising from insurance contracts which appears in the income statement and Note 3.
- Note 1A (d) describes the accounting for claims costs that appear in the income statement. Claims are discussed in further detail in section 2B below.
- Note 1A (c) describes the accounting for reinsurance which appears in the income statement and notes 5 and 19.
- Note 1C (a) describes the estimation techniques used in the calculation of the technical provisions balances included in the statement of financial position and disclosed in more detail in note 23.
- Note 3 discloses the amount of insurance premium tax paid on premiums arising from insurance contracts.
- Note 6 discloses costs incurred in acquiring insurance business.
- Note 12 discloses the commissions payable in respect of insurance contracts.
- Note 20 discloses the amounts receivable from insurance policyholders at the statement of financial position date.
- Note 23 discloses the movements in insurance technical provisions during 2017.

The majority of these figures are of certain timing and amount. The only areas of uncertain timing and amount are technical provisions and the related reinsurance recoverables. The methods for estimating the value of these items is discussed in greater detail in Note 1C (a).

2B. Risks arising from insurance contracts

Insurance risk is the risk that fluctuations in claims or premiums impact the income statement. This includes catastrophic events that lead to short-term spikes in claims.

As a medium-sized health cash plan provider, the business and hence the insurance risk is concentrated within one country of operations – the UK – and a single sector of insurance – general health insurance. In addition, within this, concentration occurs within the largest group customers. These are companies that have a significant number of their employees as BHSF policyholders and hence are likely to be more concentrated geographically than the general population.

As a not-for-profit Group, the pricing of products is an important factor in managing insurance risk. An actuarial quote engine is used to price many products, with senior executive involvement in other pricing decisions where necessary. The profitability of products is monitored in order to ensure that products do not become unviable and an appropriate level of surplus is being generated to maintain the solvency of the business. Premium and claims levels are monitored on a monthly basis in order to identify trends.

2. INSURANCE RISK MANAGEMENT

The Group accepts insurance risk through the contracts it writes for its three main insurance product lines:

- Health cash plans, where policyholders are reimbursed for all or part of their spend on a variety of everyday healthcare needs;
- Personal accident insurance, where policyholders are given cash settlement on the event of various types of accidental injury; and
- Plan4Life cancer cover, where policyholders are given cash settlement on the event of diagnosis of various types of cancer.

2A. Impact on these financial statements

The writing of insurance contracts is the Group's primary business and therefore amounts directly related to insurance contracts appear throughout these financial statements.

The nature of the Group's core health cash plan business which makes up over 90% of the Group's premium income is such that claims are of high volume, covering dental or optical appointments and other day-to-day treatments that can be burdensome for individuals but are of relatively low value for the Group. There is limited scope for a claim to be incurred which would be material to these financial statements.

Additionally, insurance risk is mitigated in part by the terms of the health cash plan policies. These state that claims must generally be made within three months of the date the claim event occurred. This reduces the volatility in claims and reduces the risk of sudden large historic claims that could significantly harm the Group's solvency. The value of claims for which there is uncertainty about the timing and amount extending beyond the next 12 months is £26k (2016: £15k).

2C. Sensitivity analysis

Sensitivity analysis is performed to illustrate the vulnerability of the financial statements to different changes. Three sensitivities are presented:

- 1 A 5% increase/decrease in claims;
- 2 A 5% increase/decrease in operating expenses; and
- 3 A one-off catastrophe giving rise to claims of £1,049k (2016: £920k).

These sensitivities are considered to be reasonably possible changes in a single factor based on past experience for the business, as well as calculations of catastrophe risk done as part of the Solvency II regulatory regime.

	Surplus/(Deficit) before tax		Accumulated fund	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Before sensitivities	1,045	637	30,989	29,176
After applying claims ratio sensitivity				
- 5% increase in claims	(244)	(600)	29,958	28,187
- 5% decrease in claims	2,334	1,874	32,020	30,167
After applying expense ratio sensitivity				
- 5% increase in operating expenses	490	160	30,545	28,796
- 5% decrease in operating expenses	1,600	1,115	31,433	29,559
After applying one-off claims shock sensitivity				
- £1,049k additional claims (2016: £920k)	(4)	(283)	30,150	28,440

3. GROSS PREMIUMS WRITTEN

	2017 £'000	2016 £'000
Total insurance premiums	41,275	38,736
Less insurance premium tax	(4,090)	(3,334)
Gross premiums written	37,185	35,402

4. SEGMENTAL REVENUE ANALYSIS

	2017 £'000	2016 £'000
The Group's total revenue is generated in the following business segments:		
Gross premiums written:		
Underwritten insurance	37,185	35,402
Other income:		
Insurance broking	367	382
Employee benefits and employer-support services	846	514
Occupational health	5,941	4,530
Total revenue	44,339	40,828

All revenue is generated in the UK with the exception of some occupational health services delivered in the Republic of Ireland.

Occupational health revenue is divided into the following geographical segments:

	2017 £'000	2016 £'000
United Kingdom	5,607	4,278
Republic of Ireland	334	252
Total occupational health revenue	5,941	4,530

5. GAIN OR LOSS ON REINSURANCE RELATIONSHIPS

	2017 £'000	2016 £'000
Premiums ceded to reinsurer	367	383
Claims recovered from reinsurer	(177)	(171)
Technical provision movement attributed to reinsurer	(34)	(6)
Loss on buying reinsurance	156	206

6. NET OPERATING EXPENSES

	2017 £'000	2016 £'000
Business acquisition costs	4,291	4,089
Administration expenses	6,820	5,449
	11,111	9,538

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

7. EMPLOYEE COSTS AND NUMBERS

7A. Employee costs:	2017 £'000	2016 £'000
Wages and salaries	9,661	8,363
Social security costs	1,003	872
Pension costs	894	740
	<u>11,558</u>	<u>9,975</u>

The pension costs disclosed above are the costs incurred in respect of the defined contribution pension scheme available to employees of the Group. Costs in respect of the defined benefit pension scheme are discussed in Note 14.

All members of staff within the Group are employed by subsidiary companies. The Company does not directly employ any staff.

7B. The average number of employees during the year:	2017 Number	2016 Number
Sales and marketing	76	68
Registration, claims and helpdesk	38	36
Management and administration	115	107
Occupational health practitioners	42	49
	<u>271</u>	<u>260</u>

8. DIRECTORS' EMOLUMENTS AND BENEFITS

	2017 £'000	2016 £'000
Directors' emoluments including benefits in kind	1,226	1,226
Contributions to a defined contribution scheme	172	153
	<u>1,398</u>	<u>1,379</u>
Highest paid Director Remuneration	<u>237</u>	<u>277</u>

The Group made contributions on behalf of Directors to the following pension scheme during the year:

	2017 Number	2016 Number
Defined contribution scheme	8	7

The highest paid director has no accrued pension or lump sum for the year (2016: nil).

9. INVESTMENT INCOME

	2017 £'000	2016 £'000
Income from land and buildings	1	7
Income from other investments	732	793
Profit/(loss) on the realisation of investments	164	(113)
	<u>897</u>	<u>687</u>

10. OTHER INCOME

	2017 £'000	2016 £'000
Insurance broking	367	382
Employee benefits and employer-support services	846	514
Occupational health	5,941	4,530
Total revenue	<u>7,154</u>	<u>5,426</u>

11. OTHER CHARGES

	2017 £'000	2016 £'000
Cost of sales	4,193	3,181
Administration expenses	3,910	3,232
Goodwill and other intangible assets amortisation	357	678
Impairment of goodwill	-	612
	<u>8,460</u>	<u>7,703</u>
Charitable donations	52	54
	<u>8,512</u>	<u>7,757</u>

12. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2017 £'000	2016 £'000
The surplus on ordinary activities before taxation is arrived at after charging the following:		
Depreciation	235	206
Amortisation of goodwill	304	632
Amortisation of other intangibles	53	46
Impairment of goodwill	-	612
Operating leases – buildings	141	207
Operating leases – other	226	242
Commissions payable	1,391	1,104
Auditor's fees:		
Fees payable in respect of the audit of the Company's accounts	13	13
Other services provided by the Company's auditor:		
Audit fees for the Company's subsidiaries pursuant to regulation	92	78
Fees for other services pursuant to regulation	19	28
Tax services	-	22
Services relating to liquidation of dormant subsidiaries	2	7

All fees payable in respect of the audit of the Group's accounts are approved by the Audit Committee.

An additional amount of £nil (2016: £49,000) has been paid to the Group's auditors in respect of corporate finance fees relating to acquisitions in the current year.

13. TAXATION

13A. Analysis of charge in year:	2017 £'000	2016 £'000
Corporation tax at 19.25% (2016: 20%)		
Current tax charge	93	140
Adjustments in respect of prior periods included in current tax charge	(2)	80
Deferred tax charge	49	63
Taxation charge	140	283

13B. Factors affecting the tax charge for the year:

The tax assessed for the year is less (2016: more) than would be expected by multiplying the surplus on ordinary activities by the standard rate of corporation tax in the UK of 19.25% (2016: 20%).

The differences are explained below:

	2017 £'000	2016 £'000
Surplus on ordinary activities before taxation	1,045	637
Surplus on ordinary activities before taxation multiplied by the standard rate of corporation tax at 19.25% (2016: 20%)	201	127
Effects of:		
Gains and losses not subject to corporation tax	248	(69)
Income not subject to corporation tax	(384)	(99)
Goodwill deduction not subject to corporation tax	77	258
Adjustments in respect of prior periods	(2)	80
Timing differences	-	(16)
Other differences	-	2
Total tax charge	140	283

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a charge of £176k (2016: credit of £289k).

13C. Deferred tax

The Group had deferred tax assets as follows:

	2017 £'000	2016 £'000
Fixed asset timing differences	2	7
Short-term timing differences	-	1
Deferred tax asset on pension scheme liability	150	326
	152	334

Deferred tax assets are carried forward within other debtors.

The movement on the deferred tax asset is as follows:

	2017 £'000	2016 £'000
As at 1 January	334	38
Movement through total comprehensive income	(182)	296
As at 31 December	152	334

The extent to which the majority of the deferred tax assets will reverse over the next 12 months is uncertain because most of their value depends on the value of the pension scheme liabilities which is sensitive to prevailing market and economic forces. Of the remaining assets, it is estimated at £2k (2016: £2k) will reverse over the next 12 months.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

The Group has deferred tax liabilities as follows:

	2017 £'000	2016 £'000
Fixed asset timing differences	52	69
Acquisition fair value adjustments	-	32
Short-term timing differences - trading	30	-
Investment property revaluations	175	113
	<u>257</u>	<u>214</u>

The deferred tax liability is carried forward within other provisions.

The movement on the deferred tax liability is as follows:

	2017 £'000	2016 £'000
As at 1 January	214	108
Arising on acquisition	-	36
Movement through total comprehensive income	43	70
As at 31 December	<u>257</u>	<u>214</u>

Over the next 12 months it is expected that £25k (2016: £23k) of deferred tax liabilities in respect of fixed asset timing differences will reverse as the accounting value and tax value of fixed assets converge. Reversal of deferred tax liabilities in respect of property revaluations is uncertain due to its dependency on prevailing market conditions.

13D. Factors that may affect future tax charges

The applicable UK corporation tax rate is 19.25% for the company (2016: 20%), due to the reduction of the UK corporation tax rate from 20% to 19% which was effective from 1 April 2017. The Finance Bill 2016, which was substantively enacted on 6 September 2016, included legislation further reducing the UK corporate tax rate to 17% from 1 April 2020. This reduction has been reflected in the deferred tax provided in the company where applicable.

14. PENSION COMMITMENTS

The Group provides retirement benefits to some of its former and current employees through a defined benefit pension scheme. The scheme closed to future accrual on 31 October 2012. The pension scheme assets are held in a separate trustee-administered fund to meet the long-term pension liabilities of these past and present employees. The administration of the scheme is determined by the scheme's Trust Deed. It provides that the level of retirement benefit is based upon the highest annual salary earned in any one of the three years preceding retirement.

14A. Pension scheme impact on financial statements

The amounts recognised in the consolidated statement of financial position are as follows:

	2017 £'000	2016 £'000
Present value of scheme liabilities	(13,805)	(14,467)
Fair value of scheme assets	12,924	12,554
Deficit in the scheme	<u>(881)</u>	<u>(1,913)</u>

The amounts recognised in the income statement are as follows:

	2017 £'000	2016 £'000
Current service cost	-	-
Interest on net liability	(53)	(6)
Past service cost	-	-
Total charge	<u>(53)</u>	<u>(6)</u>

The amounts recognised in other comprehensive income are as follows:

	2017 £'000	2016 £'000
Actuarial gain/(loss) on scheme liabilities	394	(2,969)
Actuarial gain on scheme assets	690	1,261
Deferred tax (charge)/credit on actuarial adjustments	(176)	289
Total net actuarial gain/(loss)	<u>908</u>	<u>(1,419)</u>

There are no commitments in respect of the defined contribution scheme at the year-end (2016: nil).

However, in March 2018, the Board approved a commitment to pay an annual amount of £60k (monthly instalments of £5k) with effect from April 2018.

14B. Pension scheme assets and liabilities

Changes in the present value of the defined benefit obligation are as follows:

	2017 £'000	2016 £'000
Opening scheme liabilities	14,467	11,480
Interest cost	397	439
Actuarial (loss)/gain	(394)	2,969
Benefits paid	(664)	(421)
Other movements	(1)	-
Closing scheme liabilities	<u>13,805</u>	<u>14,467</u>

Changes in the fair value of scheme assets are as follows:

	2017 £'000	2016 £'000
Opening fair value of scheme assets	12,554	11,277
Interest income on scheme assets	344	433
Actuarial gain	690	1,261
Contributions by employer	-	4
Benefits paid	(664)	(421)
Closing fair value of scheme assets	12,924	12,554

The actual return on plan assets was £1,012k (2016: £1,673k). Under FRS 102, this return is not recognised. Instead, interest income on scheme assets is calculated using the same discount rate as is applied to liabilities. However, the scheme actuary will take the actual return on assets into account in establishing the closing fair value.

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2017	2016
Equities	57%	55%
Bonds	38%	39%
Annuities	1%	1%
Cash	4%	5%

The most recently-completed triennial actuarial valuation of the defined benefit scheme was performed by an independent actuary at 31 March 2017. The next triennial valuation will consider the scheme's value at 31 March 2020 and will determine whether further contributions by the Group are required.

In arriving at the pension liabilities as at 31 December 2017, the scheme actuary has updated the liabilities given in the last triennial valuation by adjusting for payments made to and from the scheme and updating the actuarial assumptions.

14C. Actuarial assumptions

The principal actuarial assumptions used at the statement of financial position date (expressed as weighted averages) are:

	2017	2016
Discount rate	2.60%	2.80%
RPI inflation	3.40%	3.40%
CPI inflation	2.40%	2.40%
LPI pension increases	2.40%	2.40%
Statutory increases in deferment	3.00%	3.00%
Mortality base table	S2PXA YOB	S2PA YOB
Allowance for future improvements	CMI 2016 1.25%	CMI 2014 1.25%

As part of the actuarial valuation carried out at 31 March 2017 the mortality experience of the scheme was reviewed. The mortality rate assumptions have been reviewed again this year and under the mortality tables adopted the assumed life expectancy is as follows:

	2017	2016
Longevity at age 65 for current pensioners		
Males	22.1	22.4
Females	23.9	24.5
Longevity at age 65 for future pensioners, now aged 45		
Males	23.5	24.1
Females	25.5	26.4

14D. Sensitivity analysis

The sensitivity of total comprehensive income for the year and the accumulated fund balance are shown below for three key actuarial assumptions. Changes in these assumptions have no impact on the surplus for the year. Sensitivities are chosen by the actuarial advisors based on prevailing conditions at the calculation date.

	Total comprehensive income		Accumulated fund	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Before sensitivities	1,813	(1,065)	30,989	29,176
Reduce discount rate by 0.5% per year (2016: 0.1% per year)	568	(1,314)	29,744	28,927
Increase inflation 0.5% per year (2016: 0.1% per year)	1,398	(1,160)	30,574	29,081
Add one year to life expectancies	1,481	(1,414)	30,657	28,827

14E. History of scheme positions

Amounts for the current and previous four years are as follows:

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Defined benefit obligation	(13,805)	(14,467)	(11,480)	(11,962)	(10,389)
Scheme assets	12,924	12,554	11,277	10,946	10,497
Surplus/(deficit)	(881)	(1,913)	(203)	(1,016)	108
Experience adjustment on scheme liabilities	562	61	25	(8)	(4)
Experience adjustment on scheme assets	669	1,240	261	45	547

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

15. INTANGIBLE ASSETS

	Goodwill £'000	Other Intangibles £'000	Total £'000
Group			
Cost:			
At 1 January and at 31 December 2017	8,959	300	9,259
Amortisation:			
At 1 January 2017	7,855	110	7,965
Amortisation charge for the year	304	53	357
At 31 December 2017	8,159	163	8,322
Net book value:			
At 31 December 2017	800	137	937
At 31 December 2016	1,104	190	1,294

Amortisation charged for the year is reflected in other charges in the non-technical account.

Goodwill arising on the Group's acquisitions is amortised to the income statement in equal instalments over its estimated useful life.

In the year to 31 December 2017 there were no new acquisitions made by the Group.

The other intangibles balance represents the value of contracts and customer relationships acquired.

The analysis above shows movement on goodwill balances from previous acquisitions. Goodwill balances (excluding those which were fully amortised at the beginning of the year) were amortised on the following basis during the year:

Newhall Medical Practice Limited	- 4 years finishing on 26 May 2020
Nexus Healthcare Limited	- 4 years finishing on 31 August 2020

Subsequent to the application of amortisation charges for the year as outlined above, an impairment review was undertaken at the year-end. Following impairments made in previous years, no further impairments were recognised in 2017.

Other intangible assets arising on acquisition have been amortised over a four year period, this being their estimated useful economic life.

16. LAND AND BUILDINGS

	Owner occupied freehold property £'000	Investment property £'000	Total £'000
At market value:			
At 1 January 2017	1,100	987	2,087
Revaluation	160	200	360
At 31 December 2017	1,260	1,187	2,447
At cost:			
At 1 January 2017	2,103	20	2,123
At 31 December 2017	2,103	20	2,123

17. SUBSIDIARY UNDERTAKINGS

17A. Summary of all subsidiary undertakings

The activities of the subsidiary companies during 2017 are below:

Trading Companies

BHSF Limited (limited by guarantee)	- provider of health cash plans and other insurances
BHSF Management Services Limited	- provider of administration services to the group
BHSF Employee Benefits Limited	- insurance broker and provider of employee benefits and employer-support services
BHSF Occupational Health Limited	- provider of occupational health services
BHSF Newhall Medical Practice Limited	- provider of occupational health services
Nexus Healthcare Limited	- provider of occupational health services (now no longer trading)

Intermediate Holding Company

BHSF Corporate Healthcare (Holdings) Limited	- holding company for occupational health businesses
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Inactive Companies

Network Insurance Brokers Limited	- dissolved 17 January 2017
WellWork Limited	- in members' voluntary liquidation in 2017, dissolved 24 February 2018
M3OH Services Limited	- in members' voluntary liquidation in 2017, dissolved 24 February 2018
Occupational Health Consultants Limited	- dissolved 3 January 2017
Abbott Burke Associates Limited	- dissolved 17 January 2017

All companies in the Group are registered at Gamgee House, 2 Darnley Road, Birmingham, B16 8TE.

Internal Group Structure

- The investment in the now dissolved Network Insurance Brokers Limited was held by BHSF Employee Benefits Limited.
- The investments in BHSF Occupational Health Limited and the now dissolved Abbott Burke Associates Limited were held by BHSF Corporate Healthcare (Holdings) Limited.
- The investments in BHSF Newhall Medical Practice Limited, and Nexus Healthcare Limited and the now dissolved Occupational Health Consultants Limited, M3OH Services Limited and WellWork Limited were held by BHSF Occupational Health Limited.

In the case of each subsidiary, BHSF Group Limited is the sole ultimate shareholder or member. All subsidiary companies are incorporated in England and Wales, other than Occupational Health Consultants Limited which was incorporated in Northern Ireland.

Investment in subsidiary undertakings

	£'000
Cost	
At 1 January 2017	6,375
Capital contributions	1,000
Redemption of preference shares	(200)
At 31 December 2017	<u>7,175</u>
Accumulated impairment provision	
At 1 January 2017 and At 31 December 2017	<u>4,535</u>
Net book value	
At 31 December 2017	<u>2,640</u>
At 31 December 2016	<u>1,840</u>

An impairment review was undertaken at the year-end. Following impairments made in previous years, no further impairments were recognised in 2017.

17B. Summary of acquisitions during the year

There were no new acquisitions by the Group during the year.

18. FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL MANAGEMENT

A financial instrument is a contract that gives rise to a right to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group has financial assets on its statement of financial position which give rise to income and expenditure in the income statement (e.g. interest and dividends) as well as gains and losses as the market values of those items valued at fair value through profit or loss change over time. In addition, the Group has financial assets and liabilities in the form of the debtors, creditors, borrowings, and cash balances that are a normal part of doing business.

18A Impact of financial instruments on financial statements

18A.1 Financial assets – statement of financial position analysis

The Group holds financial assets valued in the statement of financial position as follows:

	2017 Cost £'000	2017 Fair Value £'000	2016 Cost £'000	2016 Fair Value £'000
Financial asset investments held at fair value				
Corporate bonds	5,061	4,788	4,668	4,718
Equities	7,022	8,879	7,218	8,712
Government bonds	3,847	4,514	3,468	3,829
Collective investment funds	<u>4,294</u>	<u>4,693</u>	<u>3,874</u>	<u>4,091</u>
Total financial assets held at fair value	20,224	22,874	19,228	21,350
Cash held in investment portfolio	<u>725</u>	<u>725</u>	<u>1,145</u>	<u>1,145</u>
Total investment portfolio	20,949	23,599	20,373	22,495
Debtors held at amortised cost	3,585	3,585	3,079	3,079
Cash held outside investment portfolio	<u>6,531</u>	<u>6,531</u>	<u>7,577</u>	<u>7,577</u>
Total financial assets	<u>31,065</u>	<u>33,715</u>	<u>31,029</u>	<u>33,151</u>

All financial assets held at fair value are valued using valuations taken from the active markets in which the assets are traded on the statement of financial position date, that is all have valuations that qualify as 'level a' in the FRS 102 hierarchy of fair valuations. For these items, the Directors consider that the market value of these items takes into account the credit risk of the investment counterparty and therefore no further adjustment to valuations has been applied.

18A.2 Financial liabilities – statement of financial position analysis

The statement of financial position contains creditors totalling £3,917k (2016: £3,921k). This includes a liability of £319k (2016: £504k) in respect of the Group's revolving credit facility.

Besides the provisions covered in more detail in Notes 23 and 24, and the pension scheme deficit covered in Note 14, these are the only financial liabilities the Group holds. All creditors are valued using the amortised cost method. There were no write-offs, write-downs, revaluations or other adjustments of creditors that gave rise to income statement credits or charges over the previous 12 months.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

18A.3 Financial assets – income statement analysis

	2017 £'000	2016 £'000
Financial assets measured at fair value		
Dividend and interest income from investment portfolio	714	752
Realised gains/(losses) on assets held in investment portfolio	164	(113)
Unrealised gains on assets held in investment portfolio	1,410	1,617
Rental income earned on investment properties	1	7
Total income from financial assets measured at fair value	2,289	2,263
Interest earned on cash balances outside investment portfolio	18	41
Total income statement credit	2,307	2,304
Amount recognised in technical account	52	56
Amount recognised in non-technical account	2,255	2,248
Total income statement credit	2,307	2,304

18B. Financial risk management

The principal financial risks arising from the Group's normal activities are credit risk, liquidity risk, and market risk, which is comprised primarily of interest rate risk and equity risk. Below, the Group's exposure to and management of each risk is covered in more detail.

18B.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group is directly exposed to credit risk in the categories of financial asset in which the default of the other party to the instrument would result in a loss to the Group.

The categories of financial asset in which such counterparty default gives rise to a risk of loss at BHSF, including ageing and impairment information where applicable, can be analysed as follows:

	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Corporate bonds		4,788		4,718
Government bonds		4,514		3,829
Cash at bank or with investment managers		7,256		8,722
Debtors				
Current	2,946		2,183	
Between 1 and 3 months overdue	547		741	
More than 3 months overdue	169		225	
Total debtors before provisions	3,662		3,149	
Provisions against overdue balances	(77)		(70)	
Net debtors balance		3,585		3,079
Total credit risk exposure in the statement of financial position		20,143		20,348

The credit quality of the above assets is given in greater detail below. This uses Solvency II credit quality steps, a standardised regulatory system for aligning the credit ratings offered by the various commercial credit reference agencies. The highest quality possible is 0, with credit quality decreasing as the step number increases from 1 to 6.

	Credit quality 0 - 1 £'000	Credit quality 2 - 3 £'000	Unrated £'000	Total £'000
As at 31 December 2017				
Corporate bonds	1,384	3,404	-	4,788
Government bonds	4,514	-	-	4,514
Cash at bank or with investment managers	-	7,256	-	7,256
Debtors	-	192	3,393	3,585
	5,898	10,852	3,393	20,143
As at 31 December 2016				
Corporate bonds	1,176	3,542	-	4,718
Government bonds	3,829	-	-	3,829
Cash at bank or with investment managers	-	8,722	-	8,722
Debtors	-	158	2,921	3,079
	5,005	12,422	2,921	20,348

The Group is also indirectly exposed to credit risk through holdings in collective investment bond funds. Such funds generally contain a large number of different bond assets and hence the impact of default of any one bond issuer on the value of the assets in the Group is

limited. Total holdings in such funds were £1,951k (2016: £1,684k). The Group manages the risk of default through investment and operational policies.

The investment policy for directly held corporate bonds insists on high-quality counterparties – only those with at least an investment-grade credit rating, and places a cap on the losses that could occur by limiting the holding against any one counterparty.

Debtors are actively managed on a day-to-day basis, with regular contact established with policyholders or corporate customers in order to arrange payment of amounts overdue. The credit risk in this category is small because the amounts owed by any one debtor do not amount to a material figure.

Cash at bank is held only in major UK banks, the solvency of which are regularly reported in the media and monitored by the Group.

Debtors are considered to be impaired when they are more than three months overdue and without a payment plan in place or there are other indications of impairment. Debtors are presented in the statement of financial position net of impairment for debts which are bad or doubtful. There were no other impairments recognised against any other classes of financial asset in either the current or prior year.

18B.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group is exposed to liquidity risk in meeting operating costs as represented by the trade and other creditor figures on the statement of financial position totalling £3,917k (2016: £3,921k), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £2,155k (2016: £2,273k). 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 three months.

The risk of difficulties in meeting these obligations is managed by maximising the liquidity of investment balances by restricting investment to only those entities with an investment-grade credit rating or higher, as well as investing in government gilts. In addition to this, the Group seeks to mitigate liquidity risk further by holding cash reserves which at any one time enable financial liabilities to be met for at least a month.

18B.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other prices risk.

18B.3.1 Currency risk

The Group's insurance operations are conducted almost entirely within the UK, with relatively small operational exposure to currency risk. The Group's investment policy does not allow direct investment in foreign currency assets and hence the Group's exposure to currency risk is restricted to foreign currency assets that are part of collective investment funds. Collective investment funds containing large proportions of foreign currency assets totalled £700k (2016: £1,650k) at the statement of financial position date.

Under the Solvency II insurance regulatory regime, insurers using a standard formula approach must hold capital to cover a 25% increase or decrease in relevant exchange rates. A 25% increase in the value of pound sterling relative to all foreign currencies would result in a loss of £201k (2016: £244k) being made due to negative movements in the value of investments. Meanwhile a 25% decrease in the value of pound sterling relative to all foreign currencies would result in a gain of £201k (2016: £244k) being made due to positive movements in the value of investments.

18B.3.2 Interest rate risk

Interest rate risk is the risk that asset fair values or future cash flows will fluctuate as a result of changes to interest rates. Interest rate risk affects the value of the Group's investments in corporate and government bonds, and also affects the value of pension scheme assets and long-term liabilities, thus affecting the level of the defined benefit scheme deficit in the statement of financial position.

The Group's internal sensitivity analysis for interest rate risk utilises the approach of the Solvency II insurance regulatory regime. This applies a shock to the yield of each bond asset of between 70% and -75% based on the duration of each bond.

This analysis indicates that a shock to corporate bond yields could result in a charge of £895k (2016: £667k) and reduction in the accumulated fund of £716k (2016: £534k) or could result in a credit of £426k (2016: £280k) and increase in the accumulated fund of £341k (2016: £224k) according to the 31 December 2017 exercise.

Due to the extremely low interest rate environment and easy-access nature of cash balances, interest rate risk on cash deposits and cash with investment managers is negligible.

18B.3.3 Other prices (equity) risk

Equity risk is the risk that asset fair values will fluctuate due to changes in equity prices.

Equity risk is managed by the Group through the implementation of an investment policy which limits losses through the application of caps on the exposure to any one company as well as an overall limit on the proportion of the investment portfolio that can be held in equities.

The Group stress tests its exposure to equity prices using the Solvency II standard formula approach, which considers shocks of 40.90% (2016: 37.56%) and 50.90% (2016: 47.56%), depending on the exact nature of the investment. This analysis shows that as at 31 December 2017, such a shock would result in a profit and loss charge of £4,767k (2016: £4,374k) and reduction in the accumulated fund of £3,814k (2016: £3,499k). Conversely an increase by this amount would result in a profit and loss credit of £4,767k (2016: £4,374k) and increase in the accumulated fund of £3,814k (2016: £3,499k).

18C. Capital management

As a not-for-profit company limited by guarantee, BHSF Group Limited has limited scope for raising additional capital. As such, the only capital resource generally available to management is the accumulated fund balance of £30,989k (2016: £29,176k). The statement of changes in equity discloses information about the changes in the accumulated fund over the last 12 months.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

The Group is subject to capital requirements imposed by the Bank of England's Prudential Regulation Authority (PRA) under Europe-wide solvency regulations. The new Solvency II regulations came into force on 1 January 2016. This regime replaced the capital resources requirement (CRR) with a new solvency capital requirement (SCR). This is similarly formula-driven in its calculation, though the formula used is more rigorous and risk-focused than the previous regime.

The SCR is significantly higher than the previous CRR due to the increased depth of the calculations and the fact it includes the assets and liabilities of the BHSF pension scheme, which were not included in the previous regulations. Under the new regulations, management are aiming to maintain capital to a level that exceeds the SCR by at least 50%.

As at 31 December 2017, BHSF Group's solvency ratio was 216% (2016: 209%) (unaudited). Further information on this and other regulatory matters can be found in the BHSF Group Solvency and Financial Condition Report available from www.bhsf.co.uk.

Major investment, product, or other decisions that will impact on regulatory capital requirements or the level of capital available to meet those requirements must be modelled and stress tested as part of the approval process for these decisions. This includes dividend payment decisions within subsidiary companies subject to regulatory capital requirements on an individual level. This enables senior management and the Board to effectively manage capital levels within the Group's risk appetite.

19. MOVEMENT IN REINSURANCE ASSETS

	2017 £'000	2016 £'000
Reinsurer's share of technical provisions brought forward	158	152
Technical provision movement attributed to reinsurer	34	6
Reinsurer's share of technical provisions carried forward	192	158

20. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2017 £'000	2016 £'000
Amounts receivable from policyholders and policyholder groups	1,881	1,851

21. OTHER DEBTORS

	2017 £'000	2016 £'000
Trade and other debtors	1,512	1,070
Current taxation	146	160
Deferred taxation (Note 13)	152	334
	1,810	1,564

Amounts shown due under other debtors fall due within one year with the exception of deferred tax assets recognised in respect of fixed asset timing differences. These balances will reverse over the life of the relevant assets.

22. TANGIBLE FIXED ASSETS

	Assets under construction £'000	Computer equipment and software £'000	Furniture and equipment £'000	Total £'000
Cost:				
At 1 January 2017	-	1,133	1,210	2,343
Additions	67	233	86	386
Disposals	-	-	-	-
At 31 December 2017	67	1,366	1,296	2,729
Depreciation:				
At 1 January 2017	-	811	996	1,807
Charge for the year	-	133	102	235
Disposals	-	-	-	-
At 31 December 2017	-	944	1,098	2,042
Net book value:				
31 December 2017	67	422	198	687
31 December 2016	-	322	214	536

23. TECHNICAL PROVISIONS

	Unearned Premiums £'000	Claims £'000	Total £'000
As at 31 December 2016	311	1,962	2,273
Technical provisions (released)/added	(27)	25,521	25,494
Technical provision acquired	457	305	762
Technical provisions utilised	(311)	(26,063)	(26,374)
As at 31 December 2017	430	1,725	2,155

Unearned premiums provisions represent the amount of premiums received from policyholders in respect of future periods.

Claims provisions represent an estimate of the amount the Group will have to pay to policyholders in respect of claims incurred prior to the statement of financial position date that are yet to be paid. The precise value and timing of claims payments is uncertain due to their reliance on factors outside the Group's control, such as the specific nature of the medical services that policyholders opt for, and when they opt to use those services.

It is expected that the significant majority of the claims represented by the provision balance as at the statement of financial position date will be paid within the first three months of the next financial year.

Of the total claims provision, it is estimated that £192k (2016: £158k) will be recoverable from our reinsurer. A receivable equal to this amount is recognised as reinsurer's share of technical provisions in the statement of financial position.

During the year, the Group took on the cash plan portfolio of another entity.

No consideration was paid or received. Technical provisions totalling £762k were taken on as a result of this and were subsequently reimbursed by the previous insurer.

24. OTHER PROVISIONS

	Deferred Tax £'000	Other £'000	Total £'000
As at 31 December 2016	214	63	277
Provisions added	43	15	58
Provisions utilised	-	(63)	(63)
As at 31 December 2017	257	15	272

Deferred tax liabilities include fixed asset timing differences and liabilities arising on fair value adjustments applied to investment property and the assets acquired as part of business combinations. Further detail can be found in note 13.

Other provisions represent dilapidations on leased property.

25. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2017 £'000	2016 £'000
Revolving credit facility balance including accrued interest	319	504

Amounts owed to credit institutions represent the balance owed on the Group's unsecured revolving credit facility. Amounts drawn from the facility are repayable 12 months from the date they are drawn, with interest payable based on the prevailing rate on the date of drawdown.

The amount outstanding represents a single drawing from the facility which was repaid in January 2018. Interest is payable at a rate of 2.55%.

26. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2017 £'000	2016 £'000
Creditors due within one year:		
Trade and other creditors	1,942	2,252
Corporation tax	239	312
	2,181	2,564
Creditors due after more than one year:		
Deferred consideration	-	148
	2,181	2,712

27. LEASE OBLIGATIONS

The Group had commitments to make future payments under non-cancellable operating leases which fall due as follows:

	2017 £'000	2016 £'000
Not later than one year - buildings	135	188
Not later than one year - other	115	155
Later than one year and not later than five years - buildings	139	142
Later than one year and not later than five years - other	110	130
	499	615

28. CAPITAL COMMITMENTS

The Group had commitments to make payments of £105,700 (2016: £57,000) during the next 12 months in respect of capital asset purchases.

29. CASH AND CASH EQUIVALENTS

The statement of cash flows discloses the movement in all cash and cash equivalents. The statement of financial position distinguishes between cash that is on hand or in the bank and cash that is held within the investment portfolio by our investment managers. The following reconciles the statement of financial position cash balance to the statement of cash flows cash balance.

	2017 £'000	2016 £'000
Closing cash at bank per statement of financial position	6,531	7,577
Cash held in investment portfolio	725	1,145
Closing cash and cash equivalents per statement of cash flows	7,256	8,722

30. LEGAL FORM

BHSF Group Limited is a company limited by guarantee incorporated in England and Wales with company registration number 4767689. BHSF Group Limited's registered office is Gamgee House, 2 Darnley Road, Birmingham, B16 8TE.

31. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group totalled £1,564k (2016: £1,637k).

An amount of £125k in deferred consideration was paid during the year from BHSF Occupational Health Limited to the previous owner of Occupational Health Consultants Limited, Dr Philip McCrea. Other than this transaction, there were no related party transactions other than those between members of the Company's group.

Business Ethics Policy

1. PREAMBLE

- In all the Group's operations, it is important to retain a set of core values and approaches to the process of doing business.
- The Group recognises that it has obligations to all those with whom it has dealings - customers, employees, suppliers, competitors and the wider community.
- The reputation of the Group, and the trust and confidence of those with whom it deals are vital.
- The Group demands and maintains the highest ethical standards in carrying out its business activities. Corrupt practices of any sort will not be tolerated. The Group will monitor ethical performance regularly.

2. RELATIONS WITH CUSTOMERS

- The Group believes that integrity in dealings with customers is a prerequisite for a successful and sustained business relationship. This principle governs all aspects of the Group's approach to its customers.
- The Group will aim to provide products which give good value and consistent quality. It will not give deliberately inadequate or misleading descriptions of products.
- In all advertising and other public communications, untruths, concealment and deliberate overstatement will be avoided.
- The Group will aim to provide a high standard of service in its efforts to maintain customer satisfaction and co-operation.
- No employee may give money or any gift of significant value to a customer, nor may any gift or service be given which could be reasonably construed as being intended as a bribe.
- The Group's policy on gifts and hospitality from contacts is contained in the staff handbook. It is designed to preserve the integrity of the relationship between the Group and its business contacts and to safeguard the reputation of the Group. Employees are expected to comply with this policy and to raise with their team leader if there is any doubt about the acceptability of a gift or the offer of hospitality.
- The Group will avoid practices which seek to increase sales by any other means than legitimate merchandising efforts.
- The Group will maintain the confidentiality of customer information.

3. RELATIONS WITH MEMBERS

- The Group's accounting statements and associated reports will be true and timely.
- Whenever the Group communicates its business policies, achievements and prospects it will do so honestly.

4. RELATIONS WITH EMPLOYEES

- Relations with employees are based on respect for the dignity of the individual.
- The Group will recruit and promote employees in accordance with its equal opportunities policy, which is set out in the staff handbook.
- The Group aims to provide secure jobs and will therefore plan recruitment responsibly, in the light of information available at the time, and inform employees, as far as it is able, on employment prospects.

- The Group will seek to provide a clean, healthy and safe work environment, in line with best practice. The Group and all employees will observe the health and safety policy, which is set out in the staff handbook.
- In recognition of the efforts of the individual in helping to create the success of the Group, the Group will seek to maintain a framework of fair and just remuneration policies and structures. Pay systems will seek to recognise both the contribution of individuals and the performance of the sector of the business in which they work.
- The Group will seek to encourage and help employees at all levels to develop relevant skills and progress their careers within the Group.
- The Group will seek to explain the purpose of its activities and individual jobs, foster effective communication and involve employees in improving their work and that of the enterprise as a whole.
- Employees will not use for personal gain or any purpose except that for which it is given information received by them in the course of business dealings, and will maintain the confidentiality of confidential information relating to the Group or in respect of which the Group owes an obligation of confidence to any third party.
- Any personal interest that an employee of the Group or a member of his or her immediate family has in relation to the Group's business must be disclosed to the Group by the employee.
- The Group will not tolerate any sexual, physical, verbal or mental harassment of its employees.
- Whilst the Group endeavours to maintain the fullest communication with each employee as an individual, it recognises the need to develop effective processes for communication and consultation with employees in the natural groupings in which they work and, where appropriate, for individuals to be suitably represented in discussions.

5. RELATIONS WITH SUPPLIERS

- The Group will aim to develop relationships with its suppliers based on mutual trust.
- The Group will use all reasonable efforts to pay its suppliers on time and according to agreed terms of trade.
- The purchasing power of the Group will never be used unscrupulously.
- Employees will observe the Group's policy on gifts and hospitality from business contacts, which is set out in the staff handbook.
- The Group will maintain the confidentiality of confidential information concerning the relationship between the Group and a supplier.

6. RELATIONS WITH THE GOVERNMENT AND THE LOCAL COMMUNITY

- The Group will seek to be a good corporate citizen. It will aim to serve the community by providing products and services efficiently and profitably, and by providing good employment opportunities and conditions.
- Employees are encouraged to participate in community and civic affairs.

- The Group will support the community by charitable donations and by the voluntary efforts of its people.
- The Group will not knowingly evade tax obligations.
- The Group will record and report all transactions, including those where payment is made in cash.
- All taxable perquisites to which employees are entitled will be listed by the Group and declared for tax purposes.
- During the course of their work, all employees are required to comply with all relevant legislation, and the rules of any relevant regulatory organisation. Any employee who has any doubts about compliance matters should immediately seek the advice of his or her manager.

7. RELATIONS WITH COMPETITORS

- The Group will compete vigorously, but honestly, and will not seek to damage the reputation of competitors.
- In any contacts with competitors, employees will avoid disclosing proprietary or confidential information.
- The Group will not attempt to acquire information regarding a competitor's business by disreputable means.
- The Group will not engage in restrictive trade practices or abuse any position of market dominance.

8. THE ENVIRONMENT

- The Group is concerned with the conservation of the environment, and recognises that certain resources are finite and must be used responsibly.
- Surplus furniture and equipment will be offered to suitable organisations for re-use. Recycling will be practiced wherever possible.

9. DATA SECURITY AND CONFIDENTIALITY

- The staff handbook gives guidance on the need to keep certain information confidential and employees are required to comply with this.
- The Group publishes a computer policy statement, which is contained in the staff handbook, and breaches of it will be regarded as a disciplinary offence.

10. COMPLIANCE AND VERIFICATION

- The Group expects all employees to adhere to the provisions of this policy.
- The Group aims to create the climate and opportunities for employees to voice genuinely-held concerns about behaviour or decisions that they perceive to be unethical.
- The Group Human Resource Director is responsible for initiating and supervising the investigation of all reports of breaches of this policy, and ensuring that appropriate disciplinary action is taken when required.
- The Group's auditors may be asked to report on any practice they discover in the course of their work which appears to breach the policy.



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