

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

BHSF GROUP LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT
FOR THE YEAR ENDING 31 DECEMBER 2016

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REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF BHSF GROUP LIMITED ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS	88

**BHSF GROUP LIMITED
SOLVENCY AND FINANCIAL CONDITION REPORT
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APPROVAL OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

The Board of Directors of BHSF Group Limited has responsibility for the review and approval of the Solvency and Financial Condition Report.

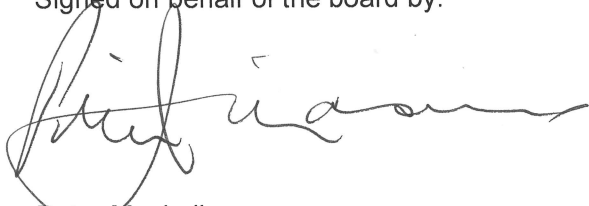
We certify that the Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and the Solvency II Regulations.

We are satisfied that:

- throughout the reporting period, the Group has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable to us; and
- it is reasonable to believe that, at the date of publication of the Solvency and Financial Condition Report, the Group has continued to comply, and will continue to comply in future.

By order and approval by the BHSF Group Limited Board of Directors.

Signed on behalf of the board by:

A handwritten signature in black ink, appearing to read 'Peter Maskell', written over a horizontal line.

Peter Maskell

Group Chief Executive

13 June 2017

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SUMMARY

Foreword

The Europe-wide Solvency II regulations came into force on 1 January 2016. They represent a step change in the level of regulatory scrutiny applied to insurers large and small. Three key areas are significantly affected:

- The detail and complexity of regulatory capital requirement calculations;
- The governance structures, processes and procedures of the organisation; and
- The frequency and scale of regulatory reporting requirements.

This Solvency and Financial Condition Report (SFCR) falls into the latter category. This is the first time in the more than 140 year history of BHSF that a regulatory report has been written not for regulators, but for the benefit of the policyholders of BHSF and the wider public.

BHSF welcomes the opportunity to be able to give its customers an insight into the structures, policies, and procedures that are in place to ensure a high quality service and the safeguarding of the assets of the business. It is expected that this report will evolve in the coming years as regulators and the industry settle on best practice.

BHSF has been granted a waiver by the Prudential Regulation Authority (PRA) from producing a solo SFCR for BHSF Limited, the Group's only insurance company. This single Group report contains all of the information that would otherwise have been presented in that solo report.

Business and Performance

BHSF Group Limited is a not-for-profit holding company whose subsidiaries undertake three core strands of business:

1. Insurance in the form of health cash plans, personal accident and Plan4Life cancer cover offered by BHSF Limited, a not-for-profit company founded in 1873;
2. Employee benefits products such as employee assistance programmes and flexible benefits platforms offered by BHSF Employee Benefits Limited; and
3. Occupational health services offered by BHSF Occupational Health Limited, BHSF Newhall Medical Practice Limited, and Nexus Healthcare Limited.

During 2016, BHSF Newhall Medical Practice and Nexus Healthcare Limited were acquired by the Group in order to strengthen the provision of the Group's occupational health services and achieve nationwide coverage for the occupational health division.

A summary of the results of each of the Group's divisions, as well as the results of the Group's investment activities during the year and other general expenditures are set out below.

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SUMMARY (continued)

	2016	2015
	£'000	£'000
Insurance underwriting surplus	831	1,396
Net investment result	2,143	532
Occupational health loss before tax	(2,052)	(1,190)
Employee benefits profit before tax	495	358
Administration costs of non-trading entities, including holding companies	(57)	(32)
Gift aid donations	(54)	(52)
Net interest cost on pension scheme	(6)	(37)
Net impact of intra-group eliminations	(663)	(466)
Surplus on ordinary activities before taxation	637	509

Underwriting performance decreased year-on-year by £0.6m. This is an acceptable result given the additional costs associated with the enhanced regulatory environment and the fact the Group did not pass on to customers the Government's 0.5% October 2016 increase in the rate of insurance premium tax.

Despite significant volatility in the investment markets during the year, investment values were high at the end of the year, with the FTSE 100 closing at a record level. This resulted in significant unrealised gains and a £1.6m increase in the year-on-year investment result.

The occupational health division saw losses increase by £0.9m due to the ongoing work to merge together and rationalise the multiple subsidiaries that have been acquired since 2012 when the first of the Group's occupational health companies were acquired.

Employee benefits profits increased by £0.1m as a result of strong sales of BHSF Limited's health cash plan products for which it earns commission.

Section A of this report gives further detailed information on the overall structure of BHSF Group and performance over the last 12 months.

Overview of Governance Arrangements

The Group Board comprises the executive directors and non-executive directors of BHSF Group Limited. In addition to the governance responsibilities of all directors, the executive directors are responsible for all aspects of the day-to-day business of BHSF and the non-executive directors are responsible for reviewing the performance of the executive in meeting agreed goals and objectives. The executive directors are led by the Group Chief Executive while the non-executive directors are led by the Chairman.

Under the overall leadership of the Chairman, the Group Board is ultimately responsible for good corporate governance across the Group. Responsibilities in this regard include:

- a) Establishing and promoting the culture, values and ethics of BHSF Group;
- b) Ensuring that processes, mechanisms and structures are best matched to the business and its strategy;
- c) Determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives;

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SUMMARY (continued)

- d) Maintaining sound risk management and internal control systems;
- e) Maintaining an appropriate relationship with the company's auditors;
- f) Establishing formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles should be applied; and
- g) Presenting a fair, balanced and understandable assessment of BHSF Group's position and prospects.

In order to effectively carry out its responsibilities, the board delegates certain activities to individual directors, senior managers and the various committees of the board whilst acknowledging that it still retains its legal and regulatory responsibilities.

Individuals appointed to executive or non-executive director roles, as well as other key roles must meet BHSF's 'fit and proper' policy. This requires that they have appropriate qualifications, knowledge, experience, and ethical qualities to fulfil their roles in the best interests of the Group and its customers.

Remuneration of directors, senior managers, and other staff is structured so as to not reward any decision or behaviour, including sales techniques, which are inconsistent with the Group's ethical stance and regulatory requirements.

Sections B.1 and B.2 contain further detail on the overarching governance arrangements in place in the Group.

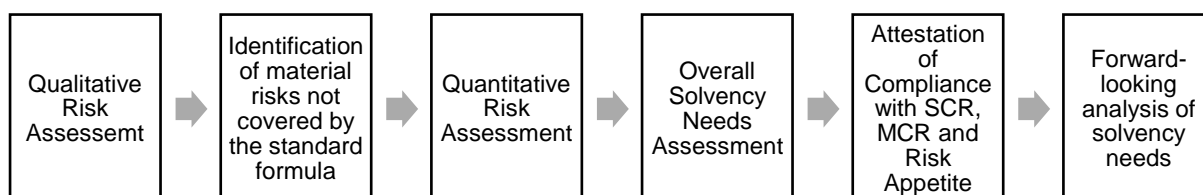
Risk Management

BHSF Group operates a risk management system which assures the identification, assessment, and prioritisation of risks across all risk categories followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or the impact of unfortunate events or to maximise realisation of opportunities. The risk management system consists of risk management strategy, risk management policies, risk management processes, risk management reporting and disclosures.

The risk management system covers all of the risks that form part of the Group's solvency capital requirement (SCR) under the Solvency II standard formula as well as some additional risks not covered by the formula. Risks covered by the formula include underwriting risk, market risk, counterparty default risk, and operational risk. Additional risks falling within the scope of the system which are not covered by the standard formula are liquidity risk, pension scheme risk, and other counterparty default risk.

The Board rates its preference for the handling of each risk based on its appetite for the particular risk. Ratings range from risk rejecting – not willing to accept any exposure to the risk – through to risk accepting – willing to take on more of a given risk.

Part of the Group's risk management activities is the completion of an own risk and solvency assessment (ORSA). The ORSA consists of the following activities:



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SUMMARY (continued)

Key outputs of these steps are used by the board in making strategic and other material decisions, such as the decision to launch a significant new product stream, or the decision to move significant funds between the various companies in the Group.

Further information on risk management can be found in sections B.3 and B.4 of this report.

Internal Control System

BHSF Group operates the 'three lines of defence' model for internal control:

1st Line Business operations	Involved in day-to-day management of risk Apply control activities and risk mitigations
2nd Line Risk, compliance and actuarial	Oversee and challenge first line's risk management Provide guidance and direction for risk-related matters Cascade changes in regulation and guide implementation Develop risk, internal control and governance frameworks and tools Escalate and provide risk and compliance reporting
3rd Line Internal audit and external audit	Provide independent, objective testing Review and provide verification of controls adequacy and efficiency for the management of risk Review and provide verification of the business compliance with external obligations

The roles and responsibilities of the second and third lines of defence which act as oversight of the business are set out in further detail in sections B.5 to B.8 of this report.

Overall the Group considers that it has a system of governance that is suitably mature for an insurer of its size and nature. Nevertheless, the board is committed to continually enhancing its system of governance in the coming years.

Risk Profile

Underwriting risk

BHSF Limited, a subsidiary of the Group is exposed to underwriting risk on the insurance products it provides; namely health cash plans, personal accident cover, and Plan4Life cancer cover. The following underwriting risks affect BHSF Limited:

- Premium and reserving risk – the risk that a reduction in premiums or a growth in claims result in losses to the business;
- Lapse risk – the risk that a large number of policy cancellations result in loss to the business; and
- Catastrophe risk – the risk that a single large-scale catastrophic event occurs which causes significant loss to the business.

Underwriting risk is partially offset by the use of reinsurance, and in protections built in to policy terms, such as the lack of scope for unlimited claims on any one policy.

Market risk

BHSF Limited invests in a portfolio of market-traded assets, including equities, corporate and government bonds, and collective investment funds. This means that the Group is exposed to market risk in the following categories:

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SUMMARY (continued)

- Concentration risk – the risk inherent from investing too much in a single company, asset class, industry, or geographical area;
- Interest rate risk – the risk that asset values fluctuate due to movements in base interest rates;
- Equity risk – the risk that asset values fluctuate due to movements in stock market prices;
- Property risk – the risk that asset values fluctuate due to movements in property prices;
- Spread risk – the risk that asset values fluctuate due to movements in the size of credit spreads attached to corporate debt; and
- Currency risk – the risk that asset values fluctuate due to movements in foreign exchange rates.

The Group manages these risks through the implementation of a strict investment policy which binds our investment managers, UBS, to maintain a well-diversified and prudently-managed portfolio. The Group Board's Investment Committee oversees the implementation of the investment policy and the management of the Group's investments in general.

Liquidity risk

All of the Group's main trading companies are exposed to liquidity risk – the risk that they find themselves unable to meet liabilities as they fall due. Each company within the Group manages its liquidity conservatively, aiming to hold a buffer in place so that liabilities would continue to be met even in the event of significant disruption to cash in flows. The size of each company's buffer is dependent on the specific trading conditions for that company.

Operational risk

Operational risk is the risk stemming from inadequate, unfair or failed internal processes, people and systems or from external events. It includes legal compliance and regulatory compliance (including conduct and prudential regulation) risks. For BHSF operational risk includes: information technology/ systems risks; data risks; physical assets/ facilities risks; financial crime risks; people/ employees risks; conduct risk; third party risks; process risks; and legal and regulatory risks.

Operational risks are managed through the use of various policies, procedures, and controls, as well as the use of appropriate insurance cover and maintenance of backups and disaster recovery facilities.

Pension scheme risk

The Group is exposed to a fall in the value of its own funds resulting from fluctuations in the value of its legacy defined benefit pension liability. The defined benefit scheme covers the pensions of some former and current employees. The risk presented has been partly mitigated through the closure of the scheme in 2012, but the liability is sensitive to market risks and the longevity of pensioners in the scheme.

Further information on risks, risk management, risk mitigation techniques, and the Group's stress testing methodologies can be found in section C.

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SUMMARY (continued)

Valuation for solvency purposes

In a small number of areas, the Solvency II regulations differ from UK generally accepted accounting practice (UK GAAP) in so far as they affect the valuation of the Group's assets and liabilities. These are covered in detail in section D of this report. The differences are summarised below:

	Solvency II £'000	UK GAAP £'000	Difference £'000
Assets	35,762	37,872	(2,110)
Liabilities	(8,204)	(8,696)	492
Excess of assets over liabilities	27,558	29,176	(1,618)

Key differences are as follows:

- Solvency II treats goodwill and other intangible assets as having nil value
- Solvency II treats certain members of the Group as a single 'related undertakings' investment while the UK GAAP accounts include their various assets and liabilities in their appropriate balance sheet lines; and
- Solvency II's definitions of technical provisions differ from those in UK GAAP.

Capital Management

Section E of this report sets out the Group's solvency capital requirement (SCR), minimum capital requirement (MCR) and the level of own funds available to cover these requirements.

The Group's own funds for Solvency II purposes comprise the £27,558k excess of assets over liabilities presented above. The Group SCR is £13,163k while the MCR is £3,189k. The Group is therefore extremely solvent, having own funds equal to 209% of the SCR and 864% of the MCR.

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SECTION A: BUSINESS AND PERFORMANCE

A.1. BUSINESS DESCRIPTION

A.1.1. NAME AND LEGAL FORM

BHSF Group Limited was incorporated in England and Wales with company number 04767689 by guarantee without share capital on 16 May 2003. The Company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

The registered office is Gamgee House, 2 Darnley Road, Birmingham, West Midlands B16 8TE.

A.1.2. SUPERVISORY AUTHORITY

Prudential Regulation Authority (PRA) regulates BHSF Group and its subsidiaries on prudential matters. The head office of the PRA is located at 20 Moorgate, London, EC2R 6DA.

Financial Conduct Authority (FCA) regulates BHSF Group and its subsidiaries on financial conduct matters. The head office of the FCA is located at 25 The North Colonnade, London, E14 5HS.

Care Quality Commission (CQC) regulates BHSF Newhall Medical Practice Limited, a subsidiary of BHSF Group's occupational health division. The head office of the CQC is located at 151 Buckingham Palace Road, London, SW1W 9SZ.

A.1.3. EXTERNAL AUDITOR

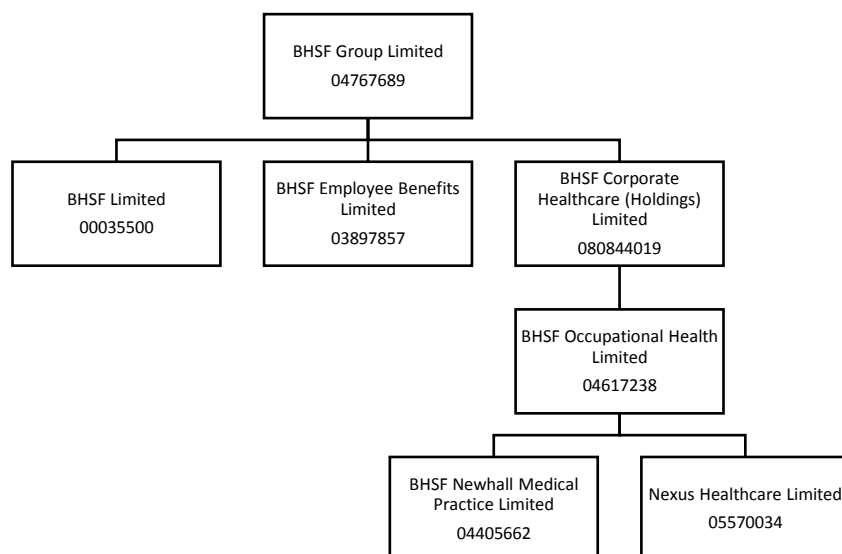
The Group board has appointed BDO LLP as the external auditor of BHSF Group Limited and all of the group's subsidiaries, including BHSF Limited the group's only insurance undertaking. The local office of the external auditors is located at 2 Snow Hill Queensway, Birmingham B4 6GA.

A.1.4. GROUP STRUCTURE

The BHSF Group comprises BHSF Group Limited and its trading subsidiaries BHSF Limited; BHSF Employee Benefits Limited; BHSF Occupational Health Limited; BHSF Newhall Medical Practice Limited; BHSF Corporate Healthcare (Holdings) Limited; Nexus Healthcare Limited. As at 31 December 2016 there were also a number of dormant or otherwise non-trading entities within the group.

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SECTION A: BUSINESS AND PERFORMANCE (continued)



BHSF Limited was incorporated in England and Wales with company number 00035500 by guarantee without a share capital on 29 December 1891. The company's legal authority is the Companies Acts 1862 to 1890 as amended by the Companies Act 2006.

BHSF Employee Benefits Limited was incorporated in England and Wales with company number 03897857 as a private limited equity company with a share capital of £100 on 16 December 1999. The company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

BHSF Occupational Health Limited was incorporated in England and Wales with company number 04617238 as a private limited equity company with a share capital of £100,000 on 13 December 2012. The Company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

BHSF Newhall Medical Practice Limited was incorporated in England and Wales with company number 04405662 as a private limited equity company with a share capital of £100 on 27 March 2002. The company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

BHSF Corporate Healthcare (Holdings) Limited was incorporated in England and Wales with company number 08044019 as a private limited equity company with a share capital of £100 on 24 April 2012. The company's legal authority is the Companies Act 2006.

Nexus Healthcare Limited was incorporated in England and Wales with company number 05570034 as a private limited equity company with a share capital of £100 on 21 September 2005. The company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

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SECTION A: BUSINESS AND PERFORMANCE (continued)

The registered office for all of the above companies is Gamgee House, 2 Darnley Road, Birmingham, West Midlands, B16 8TE.

A.1.5. MATERIAL LINES OF BUSINESS

BHSF provides medical expense insurances, other insurances, a range of employee benefits services and occupational health services to 3,100 client businesses and 240,000 policyholders plus their families.

Medical expense insurance: Most of the medical expense insurance benefits help customers with their everyday health costs – those that do not come free or easy on the NHS – such as optical, dental, therapies, health consultations and much more or provide grants in the event of a medical condition. In addition to these benefits BHSF Limited underwrites personal accident insurance and Plan4Life cancer insurance.

Other insurances: BHSF Group provides travel insurance, income protection insurance; funeral and bereavement insurance and life assurance products which are underwritten by alternative insurers.

Occupational health services: **Occupational health** is concerned with the impact of work on health and of health on work. BHSF Occupational Health Limited's services are designed to support businesses in the management of health issues at work such as sickness absence, new starter health assessments and ill-health reviews by providing access to impartial, specialist support. BHSF Occupational Health Limited provides access to a full spectrum of occupational health services for employers of all sizes. These include an occupational health helpline, services such as sickness absence referrals and workplace assessments, and contracted OH services.

Employee benefits services: BHSF Employee Benefits Limited's services are designed to support businesses with the provision of holistic employee benefits packages to their employees. BHSF Employee Benefits Limited provides access to a full spectrum of employee benefits for employers of all sizes. These include salary sacrifice schemes; employee discount schemes; voluntary benefits schemes; confidential telephone helplines in addition to providing access to travel insurance; life insurance; personal accident insurance; and pet insurance through brokering activity. BHSF Employee Benefits Limited supports businesses with the communication of their benefits package to employees.

A.1.6. SIGNIFICANT EVENTS OVER THE REPORTING PERIOD

During the course of 2016, BHSF has strengthened the provision of occupational health services through acquisition activity. The acquisition of Newhall Medical Practice was completed in May 2016. The acquisition of Nexus Healthcare was completed in September 2016. This has provided BHSF Group Limited with nationwide coverage of occupational health services.

A.2. UNDERWRITING PERFORMANCE

Underwriting performance is shown in the technical account in the Group's Annual report and Accounts. Total earned premiums net of reinsurance were marginally ahead of the previous year at £35.1m (2015: £35.0m). This is a positive result given the Group did not pass on to customers the Government's 0.5% October 2016 increase in the rate of insurance premium tax.

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SECTION A: BUSINESS AND PERFORMANCE (continued)

The total surplus on the technical account has fallen to £0.8m (2015: £1.4m). This is in large part due to higher operating expenses driven by a strong sales performance by BHSF Employee Benefits' staff as well as the increasing costs associated with the enhanced regulatory environment.

The following shows the Group's underwriting income and expenditure per the Annual Report and Accounts.

	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
Premiums				
Gross premiums written	35,402		35,412	
Outward reinsurance premiums	(383)		(341)	
Change in the provision for unearned premiums	39		(65)	
Earned premiums net of reinsurance		35,058		35,006
Allocated investment return transferred from the non-technical account		56		41
Claims				
Gross claims	24,765		25,081	
Reinsurer's share of claims	(171)		(145)	
Gross change in technical provisions	157		59	
Reinsurer's share of technical provisions	(6)		(37)	
Claims incurred net of reinsurance		(24,745)		(24,914)
Net operating expenses		(9,538)		(8,737)
Underwriting surplus per Annual Report and Accounts		831		1,396

A.3. INVESTMENT PERFORMANCE

Political and other external factors caused significant volatility in investment markets during 2016. Despite this volatility, investment values were high at the year-end with the FTSE 100 closing the year at its highest ever level, and overall investment results were strong. Investment income, being the interest and dividends earned on the investment portfolio was up 14% at £0.8m (2015: £0.7m) while unrealised gains of £1.62m were recorded compared to unrealised losses of £0.01m a year earlier. The volatility also resulted in realised losses being higher at £0.11m compared to only £0.02m a year before. Investment expenses were flat at £0.1m (2015: £0.1m).

The large unrealised gains resulted in the net investment result for the year being much higher than the previous year at £2.1m (2015: £0.5m). Based on the opening balance of the portfolio including cash and investment property, this represents a yield of 9.7%.

Over the course of the year, the value of the investment portfolio (including cash and investment property) increased by 6.3% from £22.1m to £23.5m.

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SECTION A: BUSINESS AND PERFORMANCE (continued)

Investment performance can be summarised as follows:

	2016	2015
	£'000	£'000
Investment income	800	711
Realised losses	(113)	(19)
Unrealised gains/(losses)	1,617	(11)
Investment expenses	(105)	(108)
Investment return allocated to the technical account	(56)	(41)
Net investment result	2,143	532

A.4. OTHER MATERIAL INCOME AND EXPENSE

Besides underwriting and investments, the other material lines of business for the Group are occupational health services and the broking of third party insurance and other employee benefit products and platforms.

A.4.1. OCCUPATIONAL HEALTH INCOME AND EXPENDITURE

The results as reported in the accounts of the Group and its occupational health subsidiaries are as follows:

	2016	2015
	£'000	£'000
BHSF Occupational Health Limited*		
Revenue	3,927	3,464
Expenditure (excluding tax)	(6,001)	(4,654)
Loss before tax	(2,074)	(1,190)
BHSF Newhall Medical Practice Limited**		
Revenue	252	-
Expenditure (excluding tax)	(255)	-
Loss before tax	(3)	-
Nexus Healthcare Limited**		
Revenue	351	-
Expenditure (excluding tax)	(326)	-
Profit before tax	25	-
Total occupational health loss before tax	(2,052)	(1,190)

* The 2015 results of BHSF Occupational Health Limited include the full impact of the acquisitions of WellWork Limited and M3OH Limited which took place in 2015 on the results of the Group. This differs from their impact on BHSF Occupational Health's results as presented in that company's statutory accounts due to the merger of

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SECTION A: BUSINESS AND PERFORMANCE (continued)

those subsidiary companies into BHSF Occupational Health Limited taking place several months after acquisition.

** The results of BHSF Newhall Medical practice Limited and Nexus Healthcare Limited are included from their date of acquisition by the Group. Therefore no prior year comparatives are presented.

BHSF Group's occupational health division comprises BHSF Occupational Health Limited and its two operating subsidiaries BHSF Newhall Medical Practice Limited and Nexus Healthcare Limited. The division sits under a holding company, BHSF Corporate Healthcare (Holdings) Limited. The results of the holding company are not presented above because it is a non-trading entity. BHSF Occupational Health Limited has grown rapidly since 2012 when the first occupational health companies were acquired. Since that time, a number of subsidiary companies have been acquired and integrated into BHSF Occupational Health Limited.

The ongoing work to merge together and rationalise the operations of different businesses resulted in significant costs being incurred which pushed the division into a loss-making position, which is exacerbated by write downs of acquired goodwill balances. The 29% growth in revenue in the year from £3.5m to a total of £4.5m is a result of acquisitions in both the current and prior years adding to the volume of business. Expenditure has increased 40% from £4.7m to £6.6m due to the additional costs of merging and rationalisation outlined above.

Over the coming years, as the full impact of the companies acquired in 2016, BHSF Newhall Medical Practice Limited and Nexus Healthcare Limited, is reflected in the figures, and the ongoing process of rationalising the business continues it is expected that revenue and cost of sales will continue to grow. Expenditure as a percentage of revenue will reduce as the rationalisation process nears its end and as goodwill balances become fully amortised.

A.4.2. EMPLOYEE BENEFITS INCOME AND EXPENDITURE

The latest results of BHSF Employee Benefits Limited, as presented in that company's statutory accounts are as follows:

	2016	2015
	£'000	£'000
Revenue	5,939	5,171
Expenditure	(5,444)	(4,813)
Employee benefits profit before tax	495	358

As well as being the sales force for the health cash plan and other products of BHSF Limited, BHSF Employee Benefits Limited sells the insurance products of third parties as a broker as well as other employee benefits products and platforms.

Revenue has increased by 13% from £5.2m to £5.9m as a result of increased sales of BHSF Limited health cash plan products and employee benefits products such as flexible benefits platforms. Expenditure has similarly increased by 13% from £4.8m to £5.4m in line with the expansion of the business.

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SECTION A: BUSINESS AND PERFORMANCE (continued)

A.5. ANY OTHER INFORMATION

A summary of all of the above results is below, along with further items of lower materiality and the impact of intra-group eliminations which reconcile the results to the Group's Annual Report and Accounts. In particular, this includes the elimination of sales commissions paid to BHSF Employee Benefits Limited by BHSF Limited.

	2016	2015
	£'000	£'000
Insurance underwriting surplus	831	1,396
Net investment result	2,143	532
Occupational health loss before tax	(2,052)	(1,190)
Employee benefits profit before tax	495	358
Administration costs of non-trading entities, including holding companies	(57)	(32)
Gift aid donations	(54)	(52)
Net interest cost on pension scheme	(6)	(37)
Net impact of intra-group eliminations	(663)	(466)
Surplus on ordinary activities before taxation	637	509

SECTION B: SYSTEM OF GOVERNANCE

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1. CORPORATE GOVERNANCE OVERVIEW

Corporate governance makes an indispensable contribution to the growth and long-term success of any business. It is the system for direction and control of an organisation, providing appropriate support, focused oversight and constructive challenge.

The board is ultimately responsible for good corporate governance. This means the board is ultimately responsible for:

- a) Establishing and promoting the culture, values and ethics of BHSF Group;
- b) Ensuring that processes, mechanisms and structures are best matched to the business and its strategy;
- c) Determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives;
- d) Maintaining sound risk management and internal control systems;
- e) Maintaining an appropriate relationship with the company's auditors;
- f) Establishing formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles should be applied; and
- g) Presenting a fair, balanced and understandable assessment of BHSF Group's position and prospects.

The board sets policies which all subsidiary companies within in the group are expected to follow. However, the operating boards of subsidiary companies are empowered to explain to the board why they are not apply to comply with any such policy in order to safeguard the assets or other significant specific interest of their subsidiary. In particular, the operating board of BHSF Limited can explain why it cannot comply with a group policy in order to protect the interests of its insurance policyholders.

B.1.2. BOARD COMMITTEES

The board has established a number of committees comprising independent non-executive directors and executive directors in line with corporate governance best practice guidelines. The committees ensure independent oversight and challenge and support the operational efficiency of the board. The responsibilities of the committees and membership restrictions are shown in the figure below.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

Remunerations and Nominations Committee	Investment Committee	Audit Committee	Risk and Compliance Committee
The Remuneration and Nomination Committee is responsible for overseeing the remuneration and nomination arrangements of the Chairman of the board, executive directors and senior management. The Remuneration and Nomination Committee ensures that the board retains an appropriate balance of skills to support the strategic objectives of the BHSF Group and that an effective framework for senior succession planning is in place.	The Investment Committee determines the investment strategy and the investment policy for overall approval by the board. The Investment Committee oversees the performance of the investment managers, monitors fund performance and oversees compliance with the prudent investment principles.	The Audit Committee monitors the integrity of the BHSF Group's financial reporting, including the effectiveness, appropriateness and completeness of internal control and risk management systems and the appointment and effectiveness of internal and external auditors.	The Risk and Compliance Committee oversees the overall risk strategy (including the risk appetite and tolerance frameworks), and the Risk Management Policies. It oversees the BHSF Group's management of emerging risks and the own risk and solvency assessment policy and results.
There is a majority of independent non-executive directors.	Membership includes the Chairman of the Risk and Compliance Committee and at least three other members.	Membership is restricted to independent non-executive directors and three of them sit on this committee.	Membership includes the chairman of the Audit Committee. Independent non-executive directors must account for not less than 50% of the composition of the committee.

The BHSF Group governance arrangements are applied across all subsidiaries. The BHSF Group Board has established operating company boards: BHSF Limited Board, BHSF Employee Benefits Limited board; and BHSF Occupational Health Limited board to oversee the direction and the control of the individual operating companies. These operating boards provide governance to their non-trading subsidiaries.

B.1.3. ROLE OF THE BOARD IN PRODUCTION OF STATUTORY AND REGULATORY DISCLOSURES

The BHSF Group Board is responsible for the provision of information regarding the BHSF Group and its financial operations to internal and external business stakeholders. The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Under company law the directors must not approve the strategic report, or directors report unless they are satisfied that as a whole they provide the information necessary to assess

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SECTION B: SYSTEM OF GOVERNANCE (continued)

the company's position and performance, business model and strategy. The directors are further required to confirm that the strategic report includes a fair review of the development and performance of the business, with a description of the principal risks and uncertainties and capital position.

Company law requires the directors to prepare financial statements and the supplementary information for each financial year in accordance with applicable law and regulations and in accordance with the new 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 of the surplus or deficit of the BHSF Group for that period.

In preparing these financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements 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 Group will continue the business.

Solvency II regulation requires the directors to prepare quantitative reporting templates; regular supervisory reports; solvency financial condition reports; and own risk and solvency assessment disclosures. Under the regulation the directors must not sign off these disclosures unless they are satisfied that they give a true and fair view of the state of affairs of BHSF Group.

B.1.4. CORPORATE GOVERNANCE DIVISION OF RESPONSIBILITIES

The Chairman has overall responsibility for leadership of BHSF Group Board and ensuring its overall effectiveness. The Chairman promotes a culture of openness and debate, and fosters constructive relations between executive and independent non-executive directors. The Chairman ensures directors receive relevant information in a timely fashion.

The Group Chief Executive is responsible for development of strategic proposals, the implementation of the board's strategic decisions and the operational management of the BHSF on behalf of the board. The Group Chief Executive leads the executive directors and other senior managers in the management of all aspects of the day to day business of BHSF. The Group Chief Executive ensures that the Chairman is kept informed of all key issues and ensures that all strategic decisions, and their risks, are analysed appropriately.

The committee chairmen are responsible for the leadership and governance of BHSF Group Board committees and report matters of significance to the board.

Independent non-executive directors are responsible for reviewing the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. Independent non-executive directors ensure the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.1.5. SUMMARY OF DELEGATION OF EXECUTIVE RESPONSIBILITIES

Central to corporate governance is the appropriate and transparent allocation of oversight and management responsibilities within BHSF.

In addition to their legal and regulatory responsibilities certain directors and senior managers have additional activities delegated to them by the BHSF Group Board as follows:

- The Group Chief Executive has responsibility, under the authority of the board, alone or jointly with others, for carrying out the management of the conduct of the whole of the business of BHSF. The Group Chief Executive's key accountabilities include advising the board on strategic direction; delivering and implementation of a business plan; development and maintenance of BHSF Group's business model; embedding BHSF Group's culture and standards in its day-to-day management; ensuring compliance with regulation and legislation, and ensuring risks are appropriately managed; leading the development of BHSF Group's culture and standards; and developing a competitive responsibility for the underwriting decisions in respect of material insurance risks and developing a competitive product portfolio.
- The Managing Director of BHSF Limited has responsibility for the management of BHSF Limited within profit and loss targets and risk appetite tolerances. Key accountabilities are the management of the medical expense insurance business including health cash plans, personal accident insurance and the personal cancer plans. This includes setting out a business plan, making underwriting decisions and managing reinsurance relationships.
- The Managing Director of BHSF Employee Benefits Limited has responsibility for the management of BHSF Employment Benefits Limited. Key accountabilities include business development (acquisition, strategic partnerships and marketing/ sales initiatives) and some product development.
- The Managing Director of BHSF Occupational Health Limited has responsibility for the management of BHSF Occupational Health Limited. Key accountabilities include development and delivery of occupational health services.
- The Group Finance Director has responsibility for the management of the financial resources of BHSF Group and reporting to the boards in relation to financial affairs. The Finance Director's key accountabilities include: production and verification of integrity of BHSF Group's financial information and regulatory reporting; allocation and maintenance of the BHSF Group's capital and liquidity; provision of annual budgets; managing group taxation; cash flow management; monitoring profit and loss; coordinating the calculation of technical provisions; and expressing an opinion regarding the underwriting policy.
- The Group HR Director has responsibility for induction, training and professional development for all BHSF Group's key function holders; development of effective employee remuneration strategies and policies and the development of effective fit and proper policy. Key accountabilities include monitoring compliance with employment law.
- The IT Director has responsibility for the development and implementation of the information technology and telecommunications architecture (including hardware and software) and for the management of information technology issues including disaster recovery and security of data

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SECTION B: SYSTEM OF GOVERNANCE (continued)

- The Head of Risk has responsibility for the overall framework of the risk management system. Key accountabilities include assisting the board and other functions in the effective operation of the risk management system; monitoring the risk management system; monitoring the general risk profile of BHSF Group; detailed reporting on risk exposures and advising the BHSF Group Board on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments; identifying and assessing emerging risks, assessing the performance of BHSF Group's own risk and solvency assessment; and reviewing on an annual basis risk management policies.
- The Head of Technical and Compliance has responsibility for ensuring that BHSF Group has complied with the obligation to satisfy itself that persons performing a key function are fit and proper. Key accountabilities include the review of financial promotions; fit and proper testing; assessing the adequacy of the measures adopted by BHSF Group to prevent non-compliance; monitoring changes in regulation and for preparing a compliance plan.
- The Company Secretary has responsibility for ensuring that the administrative responsibilities set out in company law and the articles of association are properly carried out. Key accountabilities include monitoring compliance with corporate governance requirements, data protection requirements, maintaining contractual documentation; ensuring regulatory compliance with Pension Auto Enrolment Legislation and the Pension Regulator Policy; and placement of group insurance policies.
- The Head of Internal Audit is provided by an external provider of internal audit services, RSM, and is responsible for the establishment, implementation and maintenance of an audit plan issuing recommendations based on the internal audit activities, and monitoring compliance with any recommendations agreed by the board.

B.1.6. BOARD REMUNERATION POLICY

BHSF maintains a remuneration policy. The remuneration policy is owned by the board's Remuneration and Nominations Committee and applies to all key persons - that is persons who can significantly influence the decision making of BHSF. This includes non-executives; executives; Senior Insurance Manager Function holders with PRA supervisory pre-approval and Significant Influence Functions holders with FCA supervisory pre-approval; Key Function Holders reported to the PRA (including risk, compliance, audit, company secretariat and finance); and material risk takers. Material risk takers are those individuals who make material risk decisions which have been defined to be:-

- Acquisitions and divestments;
- Sales strategy and business development;
- Underwriting and pricing strategy;
- Material projects;
- Capital management strategy and cash flow management.

The objectives of the remuneration policy are:-

- a) To promote sound and effective risk management and not encourage risk-taking

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SECTION B: SYSTEM OF GOVERNANCE (continued)

- b) Promote employee behaviour and performance that is in line with the long-term interests.

B.1.6.1. EXECUTIVE AND SENIOR MANAGEMENT REMUNERATION

Executives and Senior Management receive fixed and variable benefits as shown in the table below.

Fixed benefits	
Salary	The Remuneration and Nomination Committee reviews salaries of executives and senior managers annually, considering factors such as: <ul style="list-style-type: none"> • Salary increases for all employees • The performance and experience of the employee • Group or division performance • Internal relativities • Economic factors such as inflation • Benchmarking of employee package against similar industry roles
Benefits	Executives and Senior Managers are offered benefits which reflect their standing within the organisation including: <ul style="list-style-type: none"> • Car allowance • Health and wellness benefits • Life assurance benefits
Provision for retirement income	Executives and Senior Managers are offered the option to receive payments into a defined contribution scheme. A maximum of a 15% contribution will be paid provided the employee contributes at least 5% {Group directors = 21% contribution}
Variable benefits	
Annual bonus/ short term incentive scheme	Few members of the senior team have performance bonuses, but where they are paid, there is regular scrutiny to ensure that the bonus does not encourage risky behaviour. The bonus scheme for the Managing Director of BHSF Employee Benefits Limited is reviewed annually by the Remuneration and Nomination Committee. All Executives and Senior Managers (with the exception of those in the Occupational Health division) receive an amount of profit share each year and this is payable in July.
Long term incentive scheme	There is currently no long term incentive scheme in place.
Termination Payments	
Termination payments	Any termination payment is initially considered by the Group Chief Executive up to delegated authority limits. Amounts above the delegated authority limits are referred to the board.

The level and timing of these benefits is controlled to ensure that excessive risk taking is not encouraged. The key processes and controls are shown in the table below.

Processes and controls	
Performance management	Performance of Executive Directors is reviewed during regular 1-2-1 meetings with the Group Chief Executive. Performance of senior

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	managers is reviewed during regular 1-2-1 meetings with the Executive Directors to whom they report.
	Below senior management level objectives are set on an annual basis through a formal appraisal process, which covers both performance and behaviours.
Variable pay limits	Variable payments are only provided to sales-based employees within BHSF Employee Benefits Limited and BHSF Occupational Health Limited.
Deferred element of variable benefits	Of those sales-based employees within BHSF Employee Benefits Limited the only one identified for consideration of deferment is the Managing Director, whose total pay contains approximately 23% of variable pay. The Remuneration and Nomination Committee considers each year the bonus and earning capability of the BHSF Employee Benefits Managing Director and specifically reviews whether any deferment is required. At the November 2016 BHSF Employee Benefits Board meeting this matter was considered and it was felt that no deferment was necessary, nor was any imposition of a capped limit on variable pay.
Independent setting of remuneration elements	Executive remuneration is determined by the independent non-executive directors who sit on the Remuneration and Nomination Committee and they take into account performance and benchmarks against others in comparable positions in similar undertakings.
Remuneration review	Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each division's salary increase budget is set with reference to local market conditions.

B.1.6.2. INDEPENDENT NON-EXECUTIVE DIRECTORS AND THE CHAIRMAN'S REMUNERATION

Independent non-executive directors' benefits	
Fees	All independent non-executives receive a basic fee for their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of committees. If, in a particular year, the number of meetings is materially greater than usual, the company may determine that the provision of additional fees is fair and reasonable.
Expenses	Travel and expenses for independent non-executives are incurred in the normal course of business, for example in relation to attendance at board and committee meetings. The costs associated with these are all met by the company.
Chairman	
Fees	The Chairman receives an annual fee for the performance of the role. On appointment, the fee may be fixed for a specified period of time. Fees will otherwise be reviewed annually by the Remuneration and Nomination Committee.
Expenses	Travel and expenses for the Chairman are incurred in the normal course of business, for example in relation to attendance at board and

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SECTION B: SYSTEM OF GOVERNANCE (continued)

committee meetings. The costs associated with these are all met by the Company.

The level and timing of these benefits is controlled to ensure that excessive risk taking is not encouraged. The key processes and controls are shown in the table below.

Processes and controls

Independent setting of remuneration elements	Fees for non-executive directors are reviewed annually and are determined by the executive directors and the Chairman.
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B.1.6.3. SALES STAFF

Sales Staff

Performance related benefits	For staff across the business, the remuneration review is based on the appraisal rating given by the line manager. Sales staff are paid a salary and performance bonuses to reflect their effort and success. The ratio of performance-related pay to salary is kept under regular review to ensure that, while success is rewarded, the earnings proportions remain reasonable. No-one is rewarded for risky behaviour and the quality of sales, as measured by persistency statistics, is a factor. If a new policy lapses within three months then no commission is paid to the sales staff.
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Payment of sales commission relates solely to employees of BHSF Employee Benefits Limited, and is paid in relation to sales made at least three months' prior to take account of early lapses.

Broker commissions are paid on a premium-earned basis.

B.1.7. SIGNIFICANT CHANGES TO THE GOVERNANCE SYSTEM OVER THE REPORTING PERIOD

BHSF Group has developed the governance significantly over the reporting period.

B.1.7.1. BOARD CHANGES

As a result of the retirement of Paul Kanas, the Chairman, a rigorous selection process was undertaken and the board approved the appointment of Jane Dale as Chairman from February 2016. Jane brought a high level of experience to the heavily regulated companies during the critical time that Solvency II was being introduced before leaving in May 2017. The Group is currently selecting Jane's successor.

As a result of the resignation of Michael Sims as IT director in March 2016 the board approved the appointment of Adrian Hope as IT director in October 2016. Adrian brings a high level of experience in information technology and data security.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.1.7.2. BOARD COMMITTEE CHANGES

Previously the BHSF Group Board had three board committees: Audit and Compliance Review Committee; Remuneration and Nomination Committee and a Risk Committee. These have been replaced with four committees: Audit Committee; Remuneration and Nomination Committee; Risk and Compliance Committee and the Investment Committee. Following a review of how the three lines of defence model is applied across the group, the BHSF committee structure has been strengthened during the course of 2016 by segregating compliance oversight from internal audit oversight in the committee structure and the addition of a fourth committee providing a focus on investments.

B.2. COMPLIANCE WITH FIT AND PROPER REQUIREMENTS

B.2.1. RESOURCING REQUIREMENT

BHSF has identified the executive and independent non-executive functions that it considers could directly affect the BHSF Group safety and soundness.

Executive Functions:-

- Chief Executive Function
- Chief Finance Function
- Chief Underwriting Function
- Chief Risk Function
- Chief Actuarial Function
- Head of Internal Audit
- Head of Compliance Function
- Head of Key Business Area- Employee Benefits Limited.
- Head of Key Business Area- BHSF Limited.
- Head of Key Business Area- BHSF Occupational Health Limited.
- Claims Function
- Human Resource Function
- Investment Function
- IT Function

Independent Non-Executive Functions:-

- Chairman
- Chair of Risk and Compliance Committee
- Chair of Audit Committee
- Chair of Remuneration and Nominations Committee
- Chairman of Investment Committee
- Senior Independent Director

B.2.2. FIT AND PROPER POLICY

BHSF maintains a fit and proper policy. The fit and proper policy applies to all key persons - that is persons who can significantly influence the decision making of BHSF. This includes independent non- executive directors, executive directors, Senior Insurance Manager Function holders with PRA supervisory pre-approval and significant influence function

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holders with FCA supervisory pre-approval; key function holders reported to the PRA (including risk, compliance, audit, company secretariat and finance); and material risk-takers.

The objectives of the fit and proper policy are:-

- a) To ensure that all key persons have appropriate professional qualifications, knowledge and experience that are adequate to enable sound and prudent management;
- b) To ensure that all key persons are of good repute and integrity.

The fit and proper policy serves to ensure both that individuals recruited to key positions are fit and proper and, through annual reviews of fitness and propriety, that individuals continue to be fit and proper whilst in post.

B.2.2.1. EMPLOYEES OF THE COMPANY

Key fit and proper processes for employees of the company are summarised in the table below.

Key processes and controls

Role description	For all existing and new key person roles in the company a role description document exists which provides a description of the role. This includes a description of the duties, reporting lines, key outputs of the role, interactions within the business and the fit of the role within the organisational structure.
Person specification	For all existing and new key person roles in the company a person specification exists which provides a description of the skills, knowledge, qualifications, experience and personal qualities that are both essential and desirable for the role. This includes, where relevant, the insurance, financial, accounting, actuarial and management skills of the person that are required to perform the role.
Vetting procedures	For all new appointments vetting is undertaken, this includes interviewing, taking up references, review of original qualification documentation and DBS checks. Senior management positions and above are subject to psychometric testing.
Group Chief Executive approval of senior management appointment	For all new appointments, or internal transfers into key person or senior management position, a candidate must be approved by the Group Chief Executive prior to an offer being made. The Group board is notified of any new appointments or internal transfers into key person or senior management positions.
Group board approval of board appointments	The Remuneration and Nomination Committee reviews all board candidates and makes recommendations for approval to the Group Board. A candidate must be approved by the Group Board before an offer is made.
Regulatory notification	For all new appointments, or internal transfers into roles that require PRA approval the company submits an application to the PRA disclosing all information in relation to the candidate's fitness and propriety. The company discloses any additional information if it comes to light during the application process. All appointments which require PRA approval are conditional upon PRA acceptance of the fitness and propriety of the candidate. The company will notify their supervisory authority if any of the key persons have been replaced because they no longer fulfil the fit and proper requirements.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

Independent non-executive directors oversight

Independent non-executive directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. Independent non-executive directors have a prime role in appointing and, where necessary, removing executive directors, and in succession planning. Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, an independent non-executive director should provide a written statement to the chairman, for circulation to the board, if they have any such concerns.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.2.2.2. INDEPENDENT NON-EXECUTIVE DIRECTORS

Key fit and proper processes for independent non-executive directors of the company are summarised in the table below.

Key processes and controls

Chairman of board responsibilities description	A description of the responsibilities for the Chairman of the board are documented. This provides a description of the duties, personal attributes and interactions required from the Chairman.
Election of chairman and any vice -chairman	The board of BHSF Group Ltd shall decide which independent non-executive director will be chairman and which will be vice chairman (if any) of each group company, and of each board committee. The chairman and the vice chairman must be independent non-executive directors. At any board meeting at which the chairman is not present or not able to act, the board of the company concerned may appoint a chairman pro-tempore from among the members of the board; an executive director may only be appointed if no independent non-executive director is able to act, subject to the meeting being quorate.
Independence of independent non-executive directors	For each independent non-executive the board determines whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. This considers at a minimum if the appointee:- (i) has been an employee of the company or group within the last five years; (ii) has, or has had within the last three years, a material business relationship with the company either directly, or as director or senior employee of a body that has such a relationship with the company; (iii) has received or receives additional remuneration from the company apart from a director's fee, participates in the performance related pay scheme, or is a member of the company's pension scheme; (iv) has close family ties with any of the company's advisers, directors or senior employees; (v) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; (vi) has served on the board for more than nine years from the date of their first election.
Appointment of new independent non-executive directors	Appointments are made, on merit, against objective criteria and with due regard for the benefits of diversity on the board. For each new independent non-executive appointment a vetting process is undertaken. This includes an assessment of whether the individual has the necessary skills, qualification, knowledge and experience to fulfil their individual independent non-executive role and ensure the company is overseen in a professional manner. An assessment of whether a person is proper is undertaken, prior to a new appointment. This includes an assessment of that person's honesty and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects relevant for the purposes of the assessment. All new appointments receive induction on joining the board and should regularly update and refresh their skills and knowledge.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

Key processes and controls

Board diversity	<p>BHSF recognises that the board's composition and balance supports the business in delivering sustainable long-term value. This means ensuring that BHSF's board has the diverse skill sets, knowledge and experience, and ensuring that succession planning is supported by a strong bench with a depth of talent. Alongside this it means ensuring that the board has appropriate independence to carry out its duties and responsibilities effectively and that no individual or small group of individuals can dominate the board's decision taking.</p> <p>The Remuneration and Nomination Committee periodically evaluates the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.</p> <p>BHSF recognises that the board should be of sufficient size that the requirements of the business can be met. BHSF ensures that changes to the board's composition, and that of its committees, can be managed without undue disruption, and should not be so large as to be unwieldy.</p>
Annual evaluation of board performance	<p>The board undertakes a formal and rigorous independent evaluation of its own performance. This is supported by a self-assessments of performance by the Group Board's committees, an assessment of the individual executive directors undertaken by the Group Chief Executive, and an assessment of the individual independent non-executive directors undertaken by the Chairman of the Group Board. The Chairman is assessed annually by the Senior Independent Director.</p>
Re-election of directors and terms of appointment	<p>Independent non-executive directors are appointed for specified terms subject to re-appointment and to statutory provisions relating to the removal of a director.</p> <p>Independent non-executive directors are submitted for re-election at regular intervals, subject to continued satisfactory performance. Any term beyond six years for an independent non-executive director should be subject annually to particularly rigorous review, and should take into account the need for progressive refreshing of the board.</p>

B.3. RISK MANAGEMENT SYSTEM

B.3.1. OVERVIEW OF RISK MANAGEMENT SYSTEM

BHSF has a clearly defined and documented risk management system. The risk management system assures the identification, assessment, and prioritisation of risks followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events or to maximise realisation of opportunities. The risk management system consists of a risk management strategy, risk management policies, risk management processes, and risk management reports. This is shown in the figure below.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

Risk management system	The risk management system assures the identification, assessment, and prioritisation of risks across all risk categories followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or the impact of unfortunate events or to maximise realisation of opportunities. This consists of risk management strategy, risk management policies, risk management processes, risk management reporting and disclosures.
Strategy	The risk management strategy contains the objectives and principles of risk management approved tolerance limits together with a high level board risk appetite statement
Policies	The risk management policies implement the risk management strategy. They provide roles and responsibilities, reporting standards, processes and control principles for the management of risks within defined risk categories
Processes	The risk management processes define interlined tasks and activities for decision making, identification of emerging risks, assessment of risks both qualitatively and quantitatively, on a current and forward-looking basis (ORSA), monitoring risks, and reporting on risks.
Reports	The risk management reports provide information for the regulator, the board, and the executive on: the status of risks both quantitatively and qualitatively and any change of status anticipates over the business planning horizon and any issues with compliance to regulatory capital requirements.

B.3.2. RISK MANAGEMENT SYSTEM SCOPE

The risk management system covers the entire collection of risks that could potentially affect BHSF. This includes all the risks that are included in the calculation of the solvency capital requirement as defined by the standard formula and any additional risks that are significant to BHSF's business model. The key categories of risk are underwriting risk, market risk, counterparty default risk, operational risk, liquidity risk, and employee pension fund risk.

Risks not covered by the standard formula but applicable to BHSF Group's business model are:-

- Liquidity risk:-The risk of BHSF Group or any of its operating companies not being able to meet financial obligations as they fall due to insufficient cash flow or to be able to do so with losses incurred due to payments of loan agreements
- Employee pension fund risk: - the risk arising from a shortfall in the employee pension fund which results in a requirement to inject capital into the pension fund. This may result from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets within the pension scheme ring-fenced funds together with volatility in liabilities due to changes in longevity rates or interest rates.
- Other counterparty default risk: - the risk of counterparties for non-insurance lines of business defaulting.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.3.3. RISK APPETITE

The primary risk objective of BHSF's risk management system is to:

"Maintain solvency and liquidity of the Group whilst delivering continuity of business services; fair customer outcomes; and a regulatory compliant service to customers."

The BHSF Group Board have set overall targets for this primary objective. On a quarterly basis the metrics for risk appetite are collated and reported upon to the Risk and Compliance Committee.

B.3.4. RISK MANAGEMENT PRINCIPLES

To establish risk management principles, the board has established the risk preferences for each high level category of risk. These broadly determine whether the board is willing to take more risk in this category over the business planning horizon or wants to take less risk. In determining the preferences, the board has considered the overall business strategy.

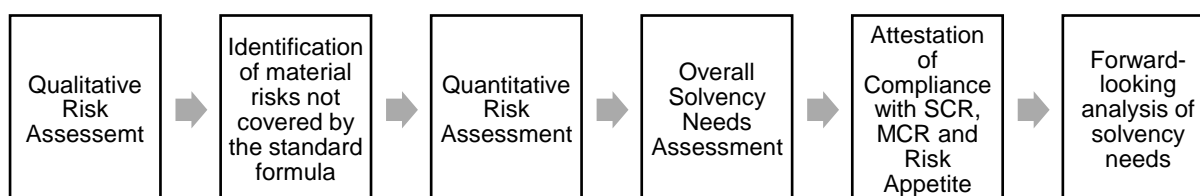
The definitions for the ratings are provided below.

Rating	Definition
Risk Accepting	BHSF is willing to take on more of this risk within its overall Board Risk Appetite and therefore has some headroom within the limits to allow the risk exposure to increase.
Risk Neutral	BHSF is not willing to take on a greater risk exposure within this risk category nor does it require any reduction of risk exposure within this category of risk.
Risk Averse	BHSF seeks to reduce its exposure to this risk category, to the extent possible.
Risk Rejecting	BHSF does not want to take on this risk and will not tolerate any intentional exposure to the risk

B.4. ORSA

B.4.1. ORSA POLICY

The own risk and solvency assessment (ORSA) process is the process for assessing the risk profile and solvency requirement of the business. It consists of the following activities: - (a) qualitative risk assessment; (b) identification of material risks not covered by the standard formula; (c) quantitative risk assessment of all material risks; (d) current overall solvency needs assessment; (e) attestation of solvency compliance; and (f) forward looking analysis of solvency compliance. This is shown in the figure below.



In accordance with regulatory requirement, the ORSA process is carried out annually in line with business planning activity. As such the ORSA will be based upon quarter three data and projected forward over the business planning horizon.

The BHSF Group Board has an active part in the ORSA, including steering, how the assessment is to be performed and challenging the results. The BHSF Group Board

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provides oversight of the own risk and solvency assessment activity through its Risk and Compliance Committee. In order to meet its oversight responsibilities the Risk and Compliance Committee reviews some key reports as shown in the table below.

Report Title	Report Description
Quarterly risk report	BHSF Group quarterly risk report is a report that provides information on the risk profile of BHSF Group. In particular it highlights changes in risk status/ emerging risks and provides an assessment of the current materiality of the risk.
Internal ORSA report	Results and conclusions of the ORSA activity
ORSA disclosure	<p>Disclosure including:-</p> <ul style="list-style-type: none"> (a) The qualitative and quantitative results of the own risk and solvency assessment and the conclusions drawn by company from those results; (b) The methods and main assumptions used in the own risk and solvency assessment; (c) Information on the company's overall solvency needs and a comparison between those solvency needs, the regulatory capital requirements and the company's own funds; (d) Qualitative information on, and where significant deviations have been identified a quantification of, the extent to which quantifiable risks of the undertakings are not reflected in the calculation of the solvency capital requirement; (e) Continuous monitoring of the solvency position and contingency planning activities and results will be summarised retrospectively in each ORSA report, indicating any actions taken in the event of deterioration of the solvency position during the year. <p>This will be constructed from the ORSA policy, the ORSA internal report and capital contingency plan.</p>

The ORSA policy is reviewed annually and approved by the BHSF Group Board.

B.4.2. ORSA AND DECISION MAKING

On an annual basis the business strategy is reviewed. This considers business trends and emerging risks. A product strategy and an investment strategy are devised which stipulates targets and discretionary limits for investments management and product management respectively.

The discretionary limits/ tolerances are tested according to the standard formula model and the ORSA model to ensure compliance with overall solvency needs and with risk appetite and SCR. The Group board should be satisfied that compliance is met prior to approving tolerance/ discretionary limits. If no compliance is assured the discretionary limits are reviewed.

During day to day business operations management will act according to the tolerance/ discretionary limits defined. In the event that management wishes to deviate from the tolerance limits analysis using the SCR and the ORSA model will be carried out to ensure that this action does not cause a non-compliance with the defined Board's risk appetite.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.5. INTERNAL CONTROL SYSTEM

B.5.1. OVERVIEW OF INTERNAL CONTROL SYSTEM

The internal control system assures the achievement of BHSF Group's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws regulations and policies. It is designed according to the three lines of defence model. It is articulated within policies for the control functions which articulate the responsibilities, reporting lines, and the activities and approach taken for each of the control functions.

BHSF operates a three lines of defence model for its internal control with activities for the first, second and third lines of defence. This is shown in the figure below. The three lines of defence model ensures appropriate independence and objectivity in internal control activity. In practice this means that BHSF operates a system of internal controls throughout all levels of the business. Everyone within the organisation has responsibility for internal control.

1st Line Business operations	Involved in day-to-day management of risk Apply control activities and risk mitigations
2nd Line Risk, compliance and actuarial	Oversee and challenge first line's risk management Provide guidance and direction for risk-related matters Cascade changes in regulation and guide implementation Develop risk, internal control and governance frameworks and tools Escalate and provide risk and compliance reporting
3rd Line Internal audit and external audit	Provide independent, objective testing Review and provide verification of controls adequacy and efficiency for the management of risk Review and provide verification of the business compliance with external obligations

Commensurate with the nature, scale and complexity of the risks inherent in the business of BHSF, both the technical and compliance function and the finance function undertake both first line and second line activities. However, where a first line activity is undertaken by these functions either independent verification is obtained regarding the activity concerned or the first line activities and the second line activities are segregated within the function. The application of the three lines of defence model to BHSF is shown in the figure below.

1st Line Business operations	Field Sales Contact Centre Marketing Brokering After Sales Service Occupational Health	Technical and compliance Finance
2nd Line Risk, compliance and actuarial	Risk Function	
3rd Line Internal audit and external audit	External audit service provider Internal audit function	

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.5.2. RISK MANAGEMENT FUNCTION POLICY

The Head of Risk has responsibility for the overall management of the risk management system. Key accountabilities include: (i) assisting the board and other functions in the effective operation of the risk management system; (ii) monitoring the risk management system; (iii) monitoring the general risk profile of the undertaking as a whole; (iv) detailed reporting on risk exposures and advising the board on risk management matters (including matters in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments); (v) identifying and assessing emerging risks.

In addition the Head of Risk is responsible for assessing the performance of BHSF's ORSA and for reviewing, on an annual basis, the adequacy of the risk management policies.

The risk management function policy is reviewed annually and approved by the BHSF Group Board.

There has been a significant change in the risk management function policy in the reporting period. Historically risk management activity has been undertaken by the technical and compliance function in conjunction with the finance function. However to ensure independence a new Head of Risk has been appointed who reports directly to the Chairman of the Risk and Compliance Committee.

B.5.3. TECHNICAL AND COMPLIANCE FUNCTION POLICY

The Head of Technical and Compliance function has responsibility for ensuring the company and its subsidiaries is in compliance with existing and new FCA, PRA, and EIOPA regulations. The Head of Technical and Compliance oversees the compliance program, functioning as an independent and objective body that reviews and evaluates compliance issues/concerns within the BHSF Group. Key accountabilities include: (i) advising the BHSF Group Board on compliance with regulations applicable to BHSF Group; (ii) an assessment of the possible impact of any changes in the regulatory environment on the operations of the company; and (iii) the identification and assessment of compliance risk.

In order to meet the accountabilities defined above the technical and compliance function undertakes all of the following tasks:-

- a) Establish a compliance plan detailing regulatory changes and activities and resources needed to address them given their applicability to BHSF;
- b) Conducting an assessment of the adequacy of the measures adopted by the company to address new regulation in order to prevent non-compliance;
- c) Review regulatory publications in order to identify any new or changing regulations and their applicability to BHSF Group;
- d) Identify potential areas of compliance vulnerability and risk; develops/implements corrective action plans for resolution of problematic issues, and provides general guidance on how to avoid or deal with similar situations in the future;
- e) Report quarterly to the risk committee detailing progress on the compliance plan, new compliance risks, a compliance risk assessment.
- f) Monitoring areas of regulatory vulnerability including, but not limited to, financial promotions, new product literature, sales, and complaints;

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- g) Completion of regulatory returns including: retail mediation and activities return; close links return; controllers report;

Full details of the accountabilities and activities of the technical and compliance function are contained within the technical and compliance function policy. This sets out responsibilities, competencies and reporting duties of the technical and compliance function. The technical and compliance function policy is reviewed annually and approved by the BHSF Group Board. There have been no material changes to the technical and compliance policy over the reporting period.

B.6. INTERNAL AUDIT

Internal audit provides independent objective assurance and consulting activity designed to add value and improve BHSF's operations. It helps BHSF to achieve its objectives by bringing a disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.

In line with a proportional approach the BHSF Group Board has determined to use an independent external supplier of internal audit services to support the existing internal auditing activities. This ensures that:-

- a) The internal audit function is objective and independent from the operational functions and that no conflict of interest arises;
- b) BHSF will benefit from the service provider's expertise and support framework, ensuring that, resource, technical expertise and knowledge of best practice developments is available to BHSF;
- c) The costs of maintaining the audit function are appropriate with respect to the nature, scale and complexity of the risks inherent in the company.

Working with the Internal Audit Manager, the audit service supplier is accountable for: (i) establishing an audit plan in consultation with the company; (ii) implementing and maintaining the audit plan; (iii) issuing recommendations to the company's Audit Committee; (iv) monitoring compliance with any recommendations agreed with the Audit Committee; (v) reviewing the adequacy of the effectiveness of the internal control system and the system of governance; (vi) providing a written report annually regarding all the activities it has carried out over the previous twelve month period, a summary of results of any testing carried out and compliance with any recommendations resulting from weakness identified through the testing activity, a statement regarding the overall effectiveness of the internal control environment; and (vii) ensuring the Audit Committee and BHSF staff are kept informed of regulatory and governance best practice developments.

In establishing and agreeing its audit plan the internal audit function must:-

- a) Take a risk-based approach in deciding its priorities through liaison with the Head of Risk;
- b) Take into account the system of governance, the internal control system and the risk management system of the company through liaison with the Head of Risk;
- c) Take into account all changes in the company that have occurred in the last 12 months;
- d) Establish all the auditing activities that will be undertaken in the next twelve months;

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- e) Report and agree the plan with the Audit Committee.

Periodically additional audit activity may be required, this must be agreed with the Audit Committee and board prior to implementation.

Full details of the accountabilities and activities of the internal audit function are contained within the internal audit policy. The internal audit function policy is reviewed annually to ensure its continued appropriateness and approved by the board.

There has been a significant change in the internal audit function policy in the reporting period. Historically audits to form and express an opinion on the financial statements have been undertaken by an external auditor, BDO, and transactional audits have been undertaken by the quality team. However, to ensure independence and support high standard internal audit activity the Head of Audit is supported in her activity by an outsourced supplier, RSM, who also supply the Head of Internal Audit. Further to this the Head of Internal Audit now has direct access to the BHSF Board through the Chairman of the Audit Committee.

B.7. FINANCE AND ACTUARIAL FUNCTION

In line with a proportional approach the BHSF Group Board has determined to assign actuarial responsibilities and accountabilities to the finance function. In so doing the BHSF Group Board has ensured that the actuarial activities are carried out by individuals who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of BHSF Group, and are able to demonstrate their relevant experience with applicable professional and other standards.

Key actuarial accountabilities of the finance function include: (i) valuation of technical provisions; (ii) review of the reliability and adequacy of the valuation of the technical provisions; (iii) determination of capital requirements through application of the standard formula and any additional modelling required by the ORSA; (iv) determination of the adequacy of the technical provisions; (v) review of the underwriting/ insurance risk policy and reinsurance arrangements.

The actuarial activities contribute to the effective implementation of the company's risk management system through ensuring the accuracy, timeliness and completeness of the quantification of risks assessed through the ORSA process, monitoring overall capital adequacy and providing an opinion of the impact of any significant decisions on the capital position of BHSF.

The actuarial function policy is reviewed annually to ensure its continued appropriateness and approved by the board.

There has been a significant change in the actuarial function policy in the reporting period. Historically the finance function has undertaken both the quantitative and qualitative aspects of the ORSA and the production of the ORSA report. However a new Head of Risk has been appointed who will assume qualitative aspects of risk assessment and the production of the ORSA report.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.8. OUTSOURCING

B.8.1. OUTSOURCING POLICY

The outsourcing policy applies to all critical or important outsourcing relationships- that is all relationships that can materially impact either (i) the quality and/or continuity of business operations; or (ii) the system of governance of BHSF.

Outsourcing relationships are controlled to ensure that outsourcing is not undertaken in a manner that could:-

- a. Materially impair the quality of the system of governance of BHSF;
- b. Unduly increase the operational risk of BHSF;
- c. Undermine continuous and satisfactory service to policy holders or customers.

The key processes and controls are shown in the table below.

Key processes and controls	
Due diligence	A detailed examination is performed to ensure that: (i) the potential service provider has the ability, the capacity and any authorisation required by law to deliver the required functions or activities satisfactorily, taking into account the company's objectives and needs; (ii) the outsourcing does not entail the breaching of any law in particular with regard to rules on data protection; (iii) the service provider is subject to the same provisions on the safety and confidentiality of information relating to the insurance or reinsurance undertaking or to its policyholders or beneficiaries that are applicable to the company.
Conflicts of interest management	Identification and resolution of conflicts of interest to ensure that no explicit or potential conflict of interests jeopardize the fulfilment of the needs of the company.
Contractual agreements	Contractual agreements are documented between the company and the outsourcer which clearly define the respective rights and obligations of the company and the outsourcer. These include specifications of: (a) the duties and responsibilities of both parties; (b) the outsourcer's commitment to comply with all applicable laws, regulatory requirements and guidelines as well as policies approved by the company and to cooperate with the PRA with regard to the outsourced function or activity; (c) the outsourcer's obligation to disclose any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements; (d) a notice period for the termination of the contract by outsourcer which is long enough to enable the company to find an alternative solution; (e) that the company is able to terminate the arrangement for outsourcing where necessary without detriment to the continuity and quality of its provision of services to policyholders; (f) that the company reserves the right to be informed about the outsourced functions and activities and their performance by the outsourcer as well as a right to issue general guidelines and individual instructions, as to what has to be taken into account when performing the outsourced functions or activities; (g) that the outsourcer shall protect any confidential information relating to the company and its policyholders, beneficiaries, employees, contracting parties and all other persons; (h) that the company, its external auditor and the PRA have effective access to all information relating to the outsourced functions and activities including carrying out on-site inspections of the business premises of the service provider; (i) that, where appropriate and necessary for the purposes of supervision, the PRA may address questions directly to the outsourcer to which the outsourcer shall reply; (j) that the company may obtain information about the outsourced activities and may issue instructions concerning the outsourced activities and functions; (k) the terms and conditions, where applicable, under which the outsourcer may sub-outsource any of the outsourced functions and activities; (l) that the outsourcer's duties and responsibilities deriving from its agreement with the company shall remain unaffected by any sub-outsourcing taking place according to point (k).
Board oversight	The general terms and conditions of the outsourcing agreement are explained to the board and authorised by them.
Contingency planning	Contingency plans are documented that define the plan of activities in the event of an unexpected termination of an outsourcing relationship.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

Key processes and controls	
Auditing and monitoring	Risk management and internal control systems of the outsourcer are reviewed on an annual basis using either a report produced by an external auditor or by means of auditing activity. This should include a review to ensure that: (i) all staff of the service provider who will be involved in providing the outsourced functions or activities are sufficiently qualified and reliable; and (ii) ensure that the outsourcer has adequate contingency plans in place to deal with emergency situations or business disruptions and periodically tests backup facilities where necessary. taking into account the outsourced functions and activities; and (iii) verify that the outsourcer has the necessary financial resources to perform the additional tasks in a proper and reliable way

All outsourcing arrangements are made with UK firms or UK divisions of global firms.

B.9. STATEMENT OF MATURITY OF SYSTEM OF GOVERNANCE

BHSF is a category 5 firm. That is, it is an insurer whose size, interconnectedness, complexity and business type give the company almost no capacity individually to cause disruption to the UK financial system by failing or by carrying on the company's business in an unsafe manner. BHSF has no capacity to cause disruption to the interests of a substantial number of policyholders

However BHSF recognizes that where difficulties across the whole health plan sector materialize it may have the potential to generate some disruption.

As such the board of BHSF Group is committed to the adoption of governance best practice and continuing enhancement of its system of governance as evidenced by the developments during the course of 2016.

SECTION C: RISK PROFILE

C.1. UNDERWRITING RISK

C.1.1. OVERVIEW OF UNDERWRITING RISK

BHSF Limited, a subsidiary of the BHSF Group, underwrites contracts for three main medical expense product lines:

- Health cash plans, where policyholders are reimbursed for all or part of their spend on a variety of 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.

Established in 1873 and having marketed health cash plan policies for many years, BHSF Limited has a wealth of underwriting experience in this sector. BHSF Limited currently has over 350 health cash plan variations and all of these are reviewed for profitability on a regular basis, depending on the size of the book.

Policies are run on a renewal basis (which may be monthly, annually or biennially). All of this business is therefore short term. Historically, claims ratios have been relatively stable.

BHSF Limited has two customer segments: (i) direct; and (ii) corporate

C.1.2. RISK MITIGATION TECHNIQUES

As a not-for-profit company, the pricing of products is an important factor in managing underwriting risk. An actuarial quote engine is used to price many products, with senior management 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 generated to maintain solvency for the business. Premiums and claims levels are monitored on a monthly basis in order to identify trends. A review of products pricing is undertaken at least three yearly.

Further to this, underwriting risk is mitigated in part by the terms and conditions of the policies.

- Health cash plan policies state that claims must generally be made within three months of the date that the claim event occurred. This reduces the volatility in claims and reduces the risk of sudden large historic claims that could significantly harm BHSF Limited's solvency. This also means that the majority of claims are resolved within one year of the date the claim event occurred and hence the final value of claims for which there is uncertainty about the timing extending beyond the next 12 months is not material.
- Personal accident policies state maximum levels of benefits depending upon the level of cover purchased by the policyholder, they also state that benefits are halved if the policyholder is above the age of 75 at the time of the incident.
- Cancer policies have benefits paid up to a maximum level, and limitations in terms of when a policy may be opened and when it automatically terminates.

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SECTION C: RISK PROFILE (continued)

Finally, BHSF Limited has mitigated underwriting risks through the usage of reinsurers. BHSF Limited has reinsured a proportion of its personal accident insurance and its cancer cover insurance with Beazley.

C.1.3. RISK ASSESSMENT

C.1.3.1. HEALTH NSLT UNDERWRITING RISK

Risk category	Qualitative description of exposure
Premium and reserving risk	BHSF Limited is exposed to premium and reserve risk through its medical expense benefits. The medical expense cover accounts for 90% of the Group's premium income. BHSF Limited has increased premium income by 207% over 17 years through acquisition and organic growth and this growth has continued into 2016. There is a marginally slow growth for the health cash plan industry overall. The margins on health cash plans are very narrow as the market is very competitive. Further to this, during 2016 insurance premium tax has increased to 10%. Further increases will be incurred in June 2017 when insurance premium tax rises to 12%. Added to this medical expenses have gone up in recent years (although this is managed by the terms and conditions of the policies and the pricing of products). This will result in a further narrowing of the profit margin in premiums over expenses.
Lapse risk	BHSF Limited is exposed to lapse risk through cancellations of policies by individual and corporate policyholders. BHSF Limited has a large number of corporate clients and cancellation can occur at any point in the relationship. Multiple policyholders covered by one corporate client contract heightens lapse risk. However no one corporate client is sufficiently large to jeopardise the business. Monthly renewal means this risk is negligible for BHSF Limited.

C.1.3.2. HEALTH CATASTROPHE UNDERWRITING RISK

Risk category	Qualitative description of exposure
Mass accident	Mass accident exposure relates to the exposure to insurance risk following an accident that effects a proportion of the UK, or another country's, population through either death, permanent disability, disability lasting up to 10 years, disability up to 12 months, less significant medical injury. Mass accident risk therefore affects policies which cover accidental death; policies that cover permanent disability; policies that cover disability lasting up to 10 years; policies that cover disability up to 12 months and policies that cover medical expenses after an accident. Consequently a large proportion of BHSF product portfolio is affected by this risk and as all BHSF Limited policyholders are in the UK there is no diversification positive effect.
Accident conc.	Accident concentration risk relates to the exposure to insurance risk following an accident within one building or within one company by the accident resulting in either death, permanent disability, disability lasting up to 10 years, disability up to 12 months, less significant medical injury. The exposure to this risk depends on policyholder concentrations.
Pandemic	Pandemic risk relates to the exposure to insurance risk following and infectious disease in the UK. This effects medical expense policies underwritten by BHSF limited that provide coverage for infectious diseases. As BHSF has no exclusions for infectious diseases in its policies this includes all the health cash plan policies.

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SECTION C: RISK PROFILE (continued)

C.2. MARKET RISK

C.2.1. OVERVIEW OF MARKET RISK

In the provision of its services BHSF Limited, a subsidiary of BHSF Group, is required to manage its investment assets.

BHSF Limited uses a third party, UBS, to manage all of its assets. UBS is a global firm providing financial services in over 50 countries. UBS invests insurance scheme assets in a manner that is consistent with BHSF Limited's market risk policy. On an annual basis BHSF reviews a report regarding the adequacy of UBS controls for investment management which is prepared by an external auditor.

Investments are managed according to the prudent person principle. In particular:

1. Investments are properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer, group of undertakings or geographical area, or excessive accumulation of risk in the portfolio as a whole.
 - a. A maximum of 10% of the investment portfolio to be in any one equity sector, except by agreement of the board.
 - b. Individual investments should not exceed the following percentage of the equity portfolio without prior agreement of the board:

i. Individual equity holdings	7%
ii. Individual fund holdings	7%
iii. Individual corporate bond holdings	7%
iv. British Government debt including "fund of gilts"	No Limit
2. Assets held to cover the technical provisions are invested in a manner appropriate to the nature and duration of the insurance liabilities. The insurance scheme assets require significant liquidity due to the lines of insurance business that BHSF operates.
3. Investments in assets issued by the same issuer or issuers belonging to the same group do not expose the firm to excessive risk concentration. No single name issuer (excluding UK government) has greater than a 5% share of the portfolio.

C.2.2. RISK MITIGATION TECHNIQUES

BHSF invests its capital in approved financial instruments. Some investment transactions, such as hedging of investment risks (through for example derivative products) involve investment counterparty arrangements. The board has no appetite for direct derivative counterparties. The board recognises that some hedging arrangements do exist within collective investments funds on a "look through" basis.

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SECTION C: RISK PROFILE (continued)

C.2.3. RISK ASSESSMENT

Risk category	Qualitative description of exposure
Market Conc. Risk	Market concentration risk exposure relates to the risks to the company stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers. The exposure depends on the exposure to each counterparty weighted a credit quality factor. The market risk policy stipulates that no corporate bond is to be held which does not have investment grade credit rating and stipulates limits for holding concentrations in types of asset and holdings in any one sector. BHSF has no holding greater than 5% of its portfolio within any one single name excluding the UK Government.
Interest Rate	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 therefore affects the value of the Group's investment in corporate and government bonds. Long-term bonds are subject to greater interest rate risk than short-term bonds. BHSF has bonds of varying maturity however the Group's market risk policy stipulates limits to individual corporate bond holdings, although there is no limit to British government debt.
Equity	Equity risk is the risk that asset fair values will fluctuate due to changes in equity prices. The nature of an equity investment and the influence of BHSF Group over the investment has an effect on the volatility of the value of the equity. Therefore equities held in regulated markets are of lower risk. In addition strategic equity assets are of lower risk. The Group's market risk policy places a limit of the proportion of the investment portfolio that can be held in equities, however it doesn't specify limits on strategic investments or investments in regulated markets.
Property	Property risk is the risk that asset fair values will fluctuate due to changes in property prices. BHSF has a very limited immovable property portfolio.
Spread	Spread risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. Credit spreads vary from one security to another based on the credit rating of the issuer of the bond, the duration of the bond; whether the bond was issued by a mature market or an emerging market. Specifically: - (i) as the default risk of the issuer increases, its spread widens; (ii) as the duration of the bond increases the spread risk increases; and (iii) emerging markets have a greater spread risk than mature markets. Spread risk therefore affects the value of the Group's investment in corporate bonds. BHSF has a portfolio of corporate bonds that vary both in duration and in credit quality.
Currency	Currency risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates. The Group's insurance operations are conducted almost entirely within the UK, with relatively little exposure to currency risk. The Group's market risk policy does not allow direct investment in foreign currency assets and hence the Group's exposure to currency risks is restricted to foreign currency assets that are part of collective investment funds.

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SECTION C: RISK PROFILE (continued)

C.3. CREDIT RISK

C.3.1. OVERVIEW

In the provision of its services BHSF is required to manage relationships with counterparties. BHSF has the following counterparty relationships in place to carry out its operations:-

- Reinsurance relationships: - BHSF has three main insurance lines: Health Cash plans, Personal accident insurance, and Plan 4 Life cancer cover. It mitigates part of the risk for personal accident insurance and cancer cover by placing reinsurance with a single party provider (Beazley).
- Investment counterparties: - BHSF invests its capital within financial instruments. Some investment transactions, such as hedging of investment risks (through for example derivative products) involve investment counterparty arrangements. The Group has no direct derivative counterparties but some hedging arrangements do exist within collective investments funds which are assessed on a “look through” basis.
- Banking counterparties: - BHSF holds its currency within banks. Cash transactions are undertaken in conjunction with banking counterparties.
- Legally binding relationships: - BHSF holds some letters of guarantee in order to support the historic establishment of a diversified offering.
- Individual policyholders: - BHSF holds contractual arrangements with individual policyholders who have obligations to make payment for their policies.
- Corporate policyholders: - BHSF holds contractual arrangements with corporate policyholders. The corporate policyholder has an obligation to make payment for the corporate policy and inform BHSF if there are changes to the individuals insured under the name of the policy.
- Insurance counterparties: - BHSF brokers white labelled products developed by other insurance providers and loan providers. The insurance counterparties have an obligation to service the product once sold through the BHSF sales team. The insurance counterparties have an obligation to make payment to BHSF in terms of commission for the sale.
- Other suppliers: - BHSF sells some non-insurance products on a standalone basis and within some of its health cash plans. These include helpline services and health risk assessments. The providers of the non-insurance products have an obligation to provide the service.

Limits are in place for all counterparty relationships in terms of credit rating. On an annual basis all counterparty relationships are reviewed. Counterparties are monitored on an ongoing basis.

Debtors are managed on a day-to-day basis, with regular contact established in order to arrange payment of amounts overdue. 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 indicators of impairment.

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SECTION C: RISK PROFILE (continued)

C.3.2. RISK MITIGATION TECHNIQUES

No collateral arrangements exist for counterparty relationships.

C.3.3. RISK ASSESSMENT

Risk category	Qualitative description of exposure
Type One Counterparty Default	<p>Type one counterparty default risk is the exposure of the company to defaults of risk mitigation counterparties; bank counterparties; cede underwriting counterparties; and legally binding relationship counterparties. The exposure to each counterparty is dependent on the likelihood of default of each counterparty and therefore dependent upon their credit rating. BHSF's main exposures to type one counterparty risks are:-</p> <ul style="list-style-type: none"> • Risk mitigation counterparty default through the holding of some hedging arrangements within collective investments funds on a "look through" basis although BHSF has no direct derivative counterparties; • Bank default through the cash holding for insurance business and for other business although cash is only placed in major UK banks and limits are in place for each single name exposure; • Other insurer default through the provision of some of the insurance benefits of its products, these include income protection benefits and travel insurance benefits; • BHSF holds some letters of guarantee. All the current exposures are remote.
Type Two Counterparty Default	<p>Type two counterparty default is the exposure of the company to defaults of insurance intermediaries; policyholder debtors; and reinsurers. The exposure to each counterparty is dependent on the likelihood of default of each counterparty and therefore dependent upon their credit rating. BHSF's main exposures to type two counterparty risks are:-</p> <ul style="list-style-type: none"> • Intermediary counterparty default through the holding of some cash by an intermediary, this is limited to the exposure to BHCA Services Ltd as policyholders introduced by brokers make payment direct to BHSF Ltd. • Policyholder debtors however stops can be made on claims payments following the default of a policyholder. • Reinsurance counterparty default through the holding of reinsurance with Beazley. However Beazley is a financially sound institution with a strong credit rating and reinsurance is limited to personal accident products and cancer cover products. • Other customer debtors, BHSF has exposure to occupational health trade debtors.

C.4. LIQUIDITY RISK

C.4.1. OVERVIEW

In the course of normal trading, all companies within the BHSF Group incur costs which must be settled. Liquidity risk is the risk that a company in the Group fails to settle a financial obligation when it falls due as a result of a lack of available cash. The main trading entities – BHSF Limited, BHSF Employee Benefits Limited, and BHSF Occupational Health Limited – incur the vast majority of the Group's costs and therefore carry most of the liquidity risk. The major liabilities and sources of cash to meet them in each main trading entity are discussed below.

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SECTION C: RISK PROFILE (continued)

C.4.1.1. BHSF LTD

BHSF Limited's most significant financial obligations include: - pension obligations; claims obligations; underwriting costs; overheads; salaries, NI and pensions; IT maintenance and support; other costs; taxes. Cash flow in depends on premium payments, investment income and gains.

C.4.1.2. BHSF EMPLOYEE BENEFITS LTD

BHSF Employee Benefits Limited's most significant financial obligations include:-provider costs; broker's commission costs; charges for HR support; overheads; salaries; corporation tax. Cash flow in depends on insurance premiums, HR support services income, and BHSF commission

C.4.1.3. BHSF OCCUPATIONAL HEALTH LTD

BHSF Occupational Health Limited's most significant financial obligations include:-sales costs; administration expenses; salaries; insurance; consultancy; repairs and maintenance; legal and professional fees and their overheads; corporation tax. Cash flow in depends on invoiced services income.

C.4.2. RISK MITIGATION TECHNIQUES

BHSF Group Limited holds cash reserves which at any one time enable financial liabilities to be met for several months.

C.4.2.1. BHSF LTD

A significant buffer is maintained above working capital requirements, at any one time the BHSF Limited holds sufficient cash reserves which enable financial liabilities to be met for two months.

C.4.2.2. BHSF EMPLOYEE BENEFITS LTD

A significant buffer maintained above working capital requirement, at any one time the BHSF Employee Benefits Limited holds sufficient cash reserves which enable financial liabilities to be met for two months.

C.4.2.3. BHSF OCCUPATIONAL HEALTH LTD

A significant buffer is maintained above working capital requirement, at any one time the BHSF Occupational Health Limited holds sufficient cash reserves which enable financial liabilities to be met for two months.

C.4.3. 2016 LOAN PORTFOLIO

BHSF Group has access to a revolving credit facility which it can use to provide extra liquidity as when required. Loans taken from the facility are interest-bearing, using a rate determined on the date funds are drawn down, and are repayable 12 months from the date they are drawn down. During 2016 a single loan of £500k was drawn from the facility.

C.4.4. INTRA-GROUP FUNDING

As well as access to revolving credit, the Group also has the option of internal funding where one subsidiary has a temporary liquidity need that can be met by a cash surplus in another

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SECTION C: RISK PROFILE (continued)

subsidiary. Money can be received from subsidiary companies via dividend or formal loan where the particular subsidiary's policies allow for this. This can then be passed into another subsidiary by way of formal investment or loan (where allowed by the particular subsidiary's articles of association and appropriate laws and regulations). Alternatively, informal intra-group current accounts repayable on demand could be used for very short term intra-group funding.

During the year, formal investment by BHSF Group Limited was made into BHSF Corporate Healthcare (Holdings) Limited and subsequently into BHSF Occupational Health Limited for the purposes of acquiring new subsidiaries. The amounts advanced in this way during the year totalled £2.0m. This was financed in part by a £1.0m dividend from BHSF Limited. No other significant amounts were moved around the Group during the year via other methods.

C.4.5. RISK ASSESSMENT

Risk category	Qualitative description of exposure
BHSF Ltd liquidity risk	In many lines of insurance business, premium income and, to a greater extent, claim payments do not occur evenly. This means that cash flow can be volatile and liquidity problems can occur if cash flow is not properly managed. BHSF Limited's business does not follow this pattern. The nature of the BHSF Limited's core health cash plan business, which makes up over 90% of the Group's premium income is such that: (i) claims are of high volume, covering dental and optical appointments and other day-to-day treatments, but low in value; (iii) operating costs are stable; and (ii) premium income is regular and collected on a monthly basis. Consequently, there are fluctuations in cash flow, but nowhere near the degree experienced in some other types of insurance. A fluctuation of cash flow could however be caused by a lapse of a corporate client or by a large project expenditure, or by an acquisition.
BHSF Employee Benefits Ltd liquidity risk	BHSF Employee Benefits income is dependent upon commission payments from BHSF Limited and other insurance providers plus invoiced premium income from HR support services. Income is therefore regular. The financial obligations of BHSF Employee Benefits Limited are limited to operating costs which are stable. Consequently, there are minimal fluctuations in cash flow. A fluctuation of cash flow could however be caused by a lapse of a corporate client or by a large project expenditure, or by an acquisition.
BHSF Occupational Health Ltd liquidity risk	BHSF Occupational Health Limited's income is dependent upon occupational health services premiums. Income is regular and collected on a monthly basis. During 2011 to 2016 a number of occupational health companies were acquired and hived up into BHSF Occupational Health Ltd. The acquisition activity has driven up operational costs to ensure high quality consistent processes and systems throughout BHSF Occupational Health Ltd. This has put a strain upon liquidity as has the fact that BHSF Occupational Health Limited is making losses. This is monitored closely and capital contributions are made from BHSF Group Limited when necessary.

C.5. OPERATIONAL RISK

C.5.1. OVERVIEW

In provision of its services BHSF must carry out day-to-day operational activities.

Operational risk is the risk of losses stemming from inadequate, unfair or failed internal processes, people and systems or from external events. It includes legal compliance and regulatory compliance (including conduct and prudential regulation) risks. For BHSF

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SECTION C: RISK PROFILE (continued)

operational risk includes: information technology/ systems risks; data risks; physical assets/ facilities risks; financial crime risks; people/ employees risks; conduct risk; third party risks; process risks; and legal and regulatory risks.

In the management of its operations BHSF is committed to trading responsibly. BHSF aims to ensure that in everything the company does, it meets the highest standards of business conduct. Moreover the approach to constructive feedback and complaints ensures excellence through continuous improvement.

BHSF pays 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 2002, for which BHSF has been re-accredited triennially. BHSF 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.

In 2004 BHSF also achieved ISO 9001:2000, and has also been recertified under ISO 9001:2008 to 2016.

C.5.2. RISK MITIGATION TECHNIQUES

BHSF has in place a range of commercial insurance policies designed to mitigate risks we face in the healthcare insurance market. Policies include cover for combined commercial and property risks, Employer's liability, engineering inspection, professional indemnity, PA/business travel, directors' and officers' and motor.

BHSF has key person insurance cover in place to insure against the risk of financial loss associated with losing, through death or critical illness, the skills of an executive director or a member of the senior management team. We currently have cover in place for 19 key personnel.

A business continuity plan is in place for BHSF which is tested on an annual basis. This includes a disaster recovery plan for catastrophic disruptions of IT systems, succession plans for loss of key people and facilities plans for losses of buildings.

C.5.3. RISK ASSESSMENT

Risk category	Qualitative description of exposure
Information technology	BHSFs' main applications are the iSeries (a robust secure IBM system incorporating a bespoke claims system), BACS, telephone system; OH manager; CRM system; outlook; quotation engine; and a finance system. A disaster recovery plan is in place for all these applications. Maintenance and recovery programmes are in place under contract.

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SECTION C: RISK PROFILE (continued)

Risk category	Qualitative description of exposure
Data	Large amounts of sensitive and business critical data is stored on the shared drive. The data is transferred within an operating company, between BHSF operating companies and externally to agents, other insurers, reinsurers and clients. The types of information held include: policyholder data:- bank data, personal information, employment histories employee data:- health issues, banking details, disciplinary issues, employment history, salary information corporate financial data:- profit and loss, invoicing; customer data:- bank data, personal information, medical information, employment histories corporate financial data:- profit and loss, invoicing, A disaster recovery plan is in place for loss of data and data protection controls are implemented.
Facilities	BHSF's physical assets include buildings; IT equipment; cheques and petty cash. Insurances in place for premises and equipment. Security controls are implemented across sites.
Financial crime	BHSF is exposed to false claims (although claims are of low value); incorrect policyholder details fraud and internal fraud. Controls are implemented across the group to prevent, detect and respond to fraudulent incidents.
People	BHSF is exposed to loss of key persons, health and safety, and performance risks. Controls are implemented throughout the Group such as succession planning and performance management. Moreover insurances are in place for loss of key persons.
Conduct	BHSF is exposed to insurance business conduct risk and medical practice conduct risk. However all insurance sales are non-advised; compliance monitoring process is in place to ensure appropriate ongoing conduct; checks are made regarding the fitness and propriety of staff; and professional indemnity insurance is in place as appropriate. There is a centralised and documented complaints system and issues identified by it are regularly reviewed.
Suppliers	BHSF has relationships with the following types of third parties: - ceded underwriting providers; reinsurers; service providers; brokers/ intermediaries; software providers; recruitment agencies; data suppliers; and non-insurance product suppliers. Suppliers are reviewed on a regular basis. Due diligence is undertaken prior to having a new relationship with a supplier. Legal agreements are made with each supplier. BHSF Group also outsources activity to providers of internal audit services, software developers and investment managers.
Process	BHSF undertakes sales, marketing, customer services, underwriting, product development processes supported by finance, human resource and IT processes.

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SECTION C: RISK PROFILE (continued)

Risk category	Qualitative description of exposure
Legal and Regulatory	BHSF is subject to a robust regulatory environment. Applicable regulations include:-Consumer protection from unfair trading regulations 2008; Insurance mediation directive; Insurance conduct of business sourcebook; Distant marketing directive; Consumer Rights Act 2015; Insurance Act 2015 (consumer contracts); Enterprise Act 2016 (late claims); Financial Services and Markets Act 2000- regulated activities order; Unfair Contract Terms Act 1977- business to business contacts; FCA handbook; Anti-Terrorism Act 2006; Crime and Security Act 2001; Proceeds of Crime Act 2002; Serious Organised Crime and Police Act 2005; UK Bribery Act 2012; Criminal Justice Act 1993; Data Protection Law; GCPR 2018; Intellectual property law. Changes in data protection legislation come into force in May 2018.

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SECTION C: RISK PROFILE (continued)

C.6. OTHER MATERIAL RISKS (PENSION SCHEME RISK)

C.6.1. OVERVIEW OF PENSION SCHEME RISK

BHSF provides retirement benefits to some of its former employees and current employees through defined benefits (DB) and defined contributions (DC) pension schemes.

For the DC scheme the payment depends on how long the employee saves for, how much BHSF pays in, how well the investments have performed, what charges have been taken out of the pot and how much is taken out as a cash lump sum. The DC scheme does not represent a material risk.

For the DB scheme, the benefit depends on each member's salary and pensionable service. Members are no longer accruing benefits under the Scheme. Pensions are revalued from the date that Pensionable Service ceased, up to retirement. Once in payment, pension increases are applied, parts of which are linked to inflation (up to a limit). The Scheme's assets are held separately from the Company in a trust fund. The fund is looked after by Trustees on behalf of the members. The assets are invested to meet the benefits promised under the Scheme, by a combination of investment returns and contributions made by the Company. Under the normal course of events, actuarial valuations are undertaken every three years to confirm whether the assets are expected to be sufficient to provide the benefits. If there is a shortfall, a recovery plan is put in place under which the Company is required to pay additional contributions over a period of time agreed with the Trustees.

BHSF has an obligation through the auto-enrolment pension scheme to make pensions available to all employees and to make pension contributions. BHSF also has an obligation to address any deficits in the DB pension scheme.

C.6.2. RISK MITIGATION TECHNIQUES

The DB pension scheme was closed on the 31st October 2012

C.6.3. RISK ASSESSMENT

Risk Category	Qualitative description of exposure
Defined benefits pension scheme	<p>BHSF is exposed the risk arising from a shortfall in the defined benefits employee pension fund which results in a requirement to inject capital into the defined benefits scheme. 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.</p> <p>The administration of the scheme is determined by the scheme's trust deed. It provides the level of retirement benefit is based upon the highest annual salary earned in any one of the three years preceding retirement.</p> <p>The pension scheme was closed on the 31st October 2012. The DB Scheme carries with it a longevity risk and market risks. The liabilities might significantly increase if the underlying assumptions on longevity (mortality rates) change. Volatility of asset values caused, in particular, by fluctuations in interest rates and inflation, could potentially lead to a widening of the gap between pensions assets and liabilities. The servicing cost of the pension is negligible. However, there is a cost in payment of interest on the net liability, and deferred tax credit adjustments.</p>
Defined contribution pension scheme	<p>BHSF has no liability for the defined contribution pension scheme. However, there is an expense risk associated with this type of pension scheme in terms of the amount that BHSF pays into the scheme.</p>

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SECTION C: RISK PROFILE (continued)

C.7. ANY OTHER INFORMATION (RISK ASSESSMENT METHODOLOGY)

C.7.1. OVERVIEW

In the quantitative assessment of risks BHSF uses stress tests. A stress test is a scenario that is used to determine how the company will fare in the event of a crisis. Each scenario is defined on a 99.5% probability basis.

Standard formula stresses are used where the company considers the methodology to be appropriate for BHSF's business model. In addition to the standard formula stresses, other stress are used for risks not covered by the regulators formula but which are of relevance to BHSF's business model:

- **Employee pension scheme:** - From the perspective of BHSF Ltd and the Group as a whole, the standard formula only partially covers the risk of a shortfall in the direct benefit scheme employee pension scheme. This is accounted for within the market risk module and only considers the interest rate risk and market risks associated with the scheme. It does not consider longevity risk associated with the pension scheme. The standard formula does not consider any risks associated with the direct contribution scheme however these are immaterial.
- **Liquidity risk:** - From the perspective of BHSF Ltd and the Group as a whole, the standard formula does not cover the liquidity risk for any of its operating companies and the need to incur debt or inject capital to prevent the incurrence of excessive debt costs.
- **Operational risk:** - From the perspective of BHSF Ltd and the Group as a whole the standard formula provides only a crude assessment of operational risks and a more refined set of stress is appropriate for the business model.

C.7.2. SENSITIVITY ANALYSIS

Sensitivity analysis is based upon input variables impacting the own risk and solvency assessment and determining the own risk and solvency assessment vulnerability to changes in these variables.

BHSF have identified key variables for which sensitivity analysis is undertaken:-

- Operating expenses
- Premiums to be earned during the following 12 months;
- Premiums earned during the last 12 months;
- Expected present value of premiums to be earned after the following 12 months for existing contracts;
- Expected present value of premiums to be earned for contracts where the initial recognition date falls in the following 12 months but excluding the premiums to be earned during the 12 months after the initial recognition date;
- Best estimate provision at the end of the year for claims that were outstanding at the beginning of the year and any claims and expense payments made during the year for claims that were outstanding at the beginning of the year: both amounts include any amendments due to the health risk equalisation system (HRES);

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SECTION C: RISK PROFILE (continued)

- Best estimate provision at the beginning of the year for claims outstanding of the business subject to the HRES, including any amendments due to the HRES;
- Operating expenses.

The capital model is run adjusting each of these key variables inputs to the capital model by +5% and -5% to determine the vulnerability of the model to uncertainty in its inputs. The sensitivity analysis records the range of possible outcomes.

These sensitivities are considered to be reasonable possible changes of a single variable based on past experience of the business.

C.7.3. REVERSE STRESS TESTS

To ensure that BHSF's business plan is as robust as possible BHSF undertakes reverse stress testing. Reverse stress testing identifies events where the prospective management actions are not sufficient to prevent failure. (Here failure is defined as the inability to transact regular business under normal conditions.) The purpose of reverse stress testing is to develop contingency plans in the occurrence of such an event.

Three events (stress scenarios), agreed by the board, have been defined in a manner that is appropriate for BHSF's business model and the business environment:

- The customer proposition becomes unattractive and as a consequence sales of our product range dries up and renewals significantly decrease.
- The liquidity of BHSF dries up due to a crisis involving our bank or a country crisis involving our economy.
- The entire stock of BHSF capital is wiped out on account of a market price event or a combination of such events

For each of the events (stress scenarios) defined the business considers:

- (a) What sequence of events would lead to such a scenario?
- (b) How likely is the scenario to happen?
- (c) What could the business do today to avoid such a future?

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SECTION D: VALUATION FOR SOLVENCY PURPOSES

This chapter outlines the composition of the Group's regulatory balance sheet and explains the ways in which the various material classes of assets and liabilities within it have been valued. The full regulatory balance sheet of the Group is presented below alongside the equivalent UK Generally Accepted Accounting Practice (GAAP) figures. For the significant lines, references are given to the subsections that contain further detail on the valuation bases.

Note that the more detailed approach of Solvency II results in some sundry rounding differences in certain lines. These are not discussed in detail.

Balance Sheet Line	Solvency II £'000	UK GAAP £'000	Difference £'000	Ref
Assets				
Goodwill	-	1,104	(1,104)	D.1.1
Intangible assets	-	190	(190)	D.1.1
Deferred tax assets	334	334	-	D.1.2
Property, plant & equipment for own use	1,619	1,636	(17)	D.1.3
Property other than for own use	987	987	-	D.1.3
Participations and related undertakings	633	-	633	D.1.4
Equities – listed	8,697	8,695	2	D.1.5
Equities – unlisted	17	17	-	-
Government Bonds	3,829	3,829	-	D.1.5
Corporate Bonds	4,718	4,718	-	D.1.5
Collective Investment Undertakings	4,091	4,091	-	D.1.5
Reinsurance recoverables	158	158	-	D.1.6
Insurance receivables	1,851	1,851	-	D.1.7
Trade receivables	1,376	1,533	(157)	D.1.7
Cash and cash equivalents	7,445	8,722	(1,277)	D.1.8
Any other assets not elsewhere shown	7	7	-	-
Total assets	35,762	37,872	(2,110)	
Liabilities				
Technical provisions	(2,598)	(2,273)	(325)	D.2
Other provisions	(63)	(63)	-	-
Pension benefit obligations	(1,913)	(1,913)	-	D.3.1
Deferred tax liabilities	(214)	(214)	-	-
Debts owed to credit institutions	(504)	(504)	-	D.3.2
Trade payables	(2,912)	(3,729)	817	D.3.3
Total liabilities	(8,204)	(8,696)	492	
Excess of assets over liabilities	27,558	29,176	(1,618)	

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

D.1. ASSETS

Under Solvency II, assets should be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. In only very few cases the Solvency II valuation basis for assets does not match with the principles of UK GAAP under which the statutory accounts are prepared.

D.1.1. GOODWILL AND INTANGIBLE ASSETS

Goodwill and the other intangible assets shown on the balance sheet arise as a normal part of acquisition activity. Intangible assets represent the value of the contracts and customer relationships acquired, while goodwill represents the intrinsic value of the acquired companies over and above the value of the assets they hold on their balance sheets. The Solvency II regulations unequivocally state that goodwill should be valued at nil, as should the vast majority of other intangible assets, unless there is an active market for them. This is in contrast to UK GAAP which values goodwill and other intangibles at cost less amortisation and impairment and therefore a difference arises which reduces the Group's assets for regulatory purposes by £1,104k for goodwill and £190k for other intangibles.

D.1.2. DEFERRED TAX ASSETS

Deferred tax assets are recognised primarily in relation to the deficit on the Group's defined benefit pension scheme. There is no difference between the UK GAAP valuation and the Solvency II valuation of this asset.

D.1.3. PROPERTY, PLANT AND EQUIPMENT

Property in use by the Group comprises Gamgee House, the Group's headquarters building in Birmingham. Property other than for own use comprises Tyn y Coed, an area of Welsh farmland which the Group rents out. Plant and equipment held for own use comprises the fixtures, fittings, IT equipment, and other items used by the Group in its day-to-day business.

In the statutory accounts, the properties are both valued at their market value as assessed by independent professional property valuation experts. As such, there is no difference between the regulatory accounting treatment and the statutory accounting treatment for these items.

Tangible fixed assets are valued at their cost less accumulated depreciation in the statutory accounts. This does not match with the valuation basis required of the Solvency II regulatory balance sheet. However, the Group is prudent in its selection of depreciation policies and as such management expects that the regulatory valuation of tangible fixed assets would not be materially different to the statutory accounts valuation.

The difference of £17k between the regulatory and GAAP balance sheets is a result of the difference in treatment of related undertakings as discussed in D.1.4.

D.1.4. PARTICIPATIONS AND RELATED UNDERTAKINGS

Under UK GAAP, the consolidated accounts of the Group eliminate any investments in other BHSF Group companies and incorporate their assets line-by-line into the balance sheet of the Group. Solvency II takes a different approach and incorporates the assets and liabilities of the following BHSF Group companies into a single line:

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- BHSF Employee Benefits Limited; and
- BHSF Corporate Healthcare (Holdings) Limited.

This has no overall impact on the value of the Group's assets and liabilities. However, by incorporating a number of different assets and liabilities into a single line, it gives rise to a number of differences between the regulatory figures and UK GAAP figures which will be referred to elsewhere in this section. These differences are as follows:

Balance Sheet Line	Value £'000	Ref
Property, plant & equipment for own use	17	D.1.3
Trade receivables	157	D.1.6
Cash and cash equivalents	1,276	D.1.7
Trade payables	(817)	D.3.3
Investment in related undertakings	633	

D.1.5. INVESTMENTS

The Group's investment portfolio comprises:

- Listed equities - holdings of shares in UK listed firms – generally those listed on the FTSE 100 index.
- Government bonds - holdings of UK Government gilts.
- Corporate bonds - holdings of investment grade corporate debt issued in sterling.
- Collective investment undertakings - holdings of units in investment funds which invest in a variety of assets. All of the Group's fund investments are denominated in sterling, but the funds themselves can be invested in a wide variety of assets including, but not limited to:
 - UK and overseas government debt
 - UK and overseas listed equities
 - UK and overseas corporate debt

All of the categories of investment listed above are valued based on the bid price observed in the active markets for the items on the valuation date for both regulatory and statutory accounting purposes. This means there is no difference between regulatory and statutory accounts in this area.

D.1.6. REINSURANCE RECOVERABLES

Reinsurance recoverables refer to the amounts expected to be recovered from the Group's reinsurer, Beazley Plc, in respect of claims provided for at the valuation date.

The Group reinsures part of the risk in respect of certain of its product lines. The recoverable amount represents the reinsurer's share of personal accident claims that it is estimated have been incurred at the balance sheet date.

For statutory accounts purposes the valuation is simply the reinsured portion of the personal accident technical claims provision. For full details on the calculation of the technical provision, see section D.2. For regulatory accounts purposes, the statutory accounts figure

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

should be modified to take account of the possibility of reinsurer default. The high quality of the reinsurer used by BHSF Group means that this adjustment is minimal, and does not change the value of the recoverable.

D.1.7. RECEIVABLES

Insurance and intermediaries receivables represent amounts owing to the Group from policyholders and policyholder groups in respect of health cash plans, personal accident policies, and cancer insurance policies.

Trade Receivables represent amounts owing from customers of the non-insurance side of the business, as well as other immaterial prepayment and accrued income amounts.

Receivables of all kinds are valued for both statutory accounts and regulatory accounts as the amount of cash or other future economic benefit that is expected to flow to the Group. Adjustments are made to reduce the value of receivable to take account of bad or doubtful debts.

The difference of £157k between the regulatory and GAAP balance sheets is a result of the difference in treatment of related undertakings as discussed in D.1.4.

D.1.8. CASH

Cash includes cash balances held with the Group's banking partners. In the regulatory accounts, this includes all cash held by UBS, the Group's investment managers as part of the investment portfolio.

Cash is primarily held in pound sterling, and is simply valued at its face value for both statutory and regulatory accounting purposes.

The Group holds an immaterial amount of cash held in foreign currencies. These balances are translated to sterling using the spot rate on the valuation date.

The difference of £1,276k between the regulatory and GAAP balance sheets is a result of the difference in treatment of related undertakings as discussed in D.1.4.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

D.2. TECHNICAL PROVISIONS

In the regulatory balance sheet, technical provisions comprise three major components: a claims provision; a premiums provision; and a risk margin. Solvency II defines technical provisions in a different way to the statutory accounting framework and therefore some significant differences in approach arise.

Balance Sheet Line	Solvency II £'000	UK GAAP £'000	Difference £'000	Ref
Claims Provision	1,962	1,962	-	D.2.1
Premium Provision	219	311	(92)	D.2.2
Risk Margin	417	-	417	D.2.3
Total technical provisions	2,598	2,273	325	

D.2.1. CLAIMS PROVISION

The claims provision represents a best estimate of the liabilities that have already been incurred by the insurance business. This includes claims which have been reported but for which payment is pending at the valuation date, as well as an estimate of the claims which have been incurred at the valuation date but have yet to be reported by policyholders. The calculation for claims provisions are identical in both statutory and regulatory balance sheets. The calculation is split by product line, with the total comprised as follows:

Claims provision component	Solvency II £'000	UK GAAP £'000	Difference £'000	Ref
Health cash plan	1,302	1,302	-	D.2.1.1
Personal accident	181	181	-	D.2.1.2
Plan4Life	296	296	-	D.2.1.3
Claims expenses	183	183	-	D.2.1.4
Total technical provisions	1,962	1,962	-	

D.2.1.1. HEALTH CASH PLANS

Health cash plans reimburse policyholders for a proportion of their expenditure on various healthcare items, such as 75% of a dental check-up bill. In addition, some benefits provide financial support to cover the costs of policyholders on the occurrence of certain events, such as per-diem hospitalisation payments, or a lump sum paid on the birth of a child. The vast majority of health cash plan policies renew on a monthly basis. Most cash plans have a qualifying period at the start of the policy during which no claims can be made.

Health cash plan claims are generally made within a few months of the event taking place. The technical provision for health cash plan claims is calculated based on actual historic claims experience over recent months as well as any overall trends observed in claim levels over the past year.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

In the calculation of technical provisions, all types of cash plan claims are treated as a homogenous group. This is a simplification which management consider is consistent with the fact that the vast majority of claims paid out under health cash plans are for dental and optical treatment, which do behave similarly, and that any differences that might arise from a more granular consideration of provisions is immaterial. This and other judgements are kept under review and changes are made to the provision methodology where there is evidence of significant shortcomings.

D.2.1.2. PERSONAL ACCIDENT

Personal accident claims are paid on the occurrence of certain accidents which cause bodily injury to the policyholder, including accidental death in many policies. The majority of BHSF's personal accident policies exist as free attachments to health cash plans and so follow their terms. In particular this means that there is normally a qualifying period, and the majority of personal accident policies renew on a monthly basis. Similar to health cash plans, personal accident claims are generally settled a few months after they are incurred, but a very small number of complex claims can take a number of years to settle.

The calculation of the personal accident claims provision is analogous to the cash plan provision. Past claims history is examined and blended with an examination of prevailing longer-term trends to estimate claims incurred but not reported at any one time.

Similar to health cash plans, the personal accident provision calculation treats the whole category of personal accident claims as a single homogenous group. This and other judgements are kept under review and changes are made to the provision methodology where there is evidence of significant shortcomings.

D.2.1.3. PLAN4LIFE (CANCER COVER)

Plan4Life policies pay the policyholder upon diagnosis with any of a range of cancers. Payment is in two bands: a lower amount (£250) is paid for carcinoma in situ and can be paid up to four times during the life of a policy, while a larger amount (£5,000 - £25,000 depending on level of cover) is paid for more serious cancers and can be paid only once during the life of the policy.

Like cash plans and personal accident policies, Plan4Life policies renew on a monthly basis and there is normally a qualifying period at the start of the policy. To claim, a policyholder need only be diagnosed with a covered cancer during the period of cover that follows the initial qualifying period.

Plan4Life is a relatively new product and is relatively small in the context of the Group's overall insurance business. For that reason there is a limited claims history on which to base provision calculations. As a result, the Plan4Life claims provision is calculated using available cancer and population statistics available from the Office of National Statistics and other sources to project the likelihood of cancer incidence in the different claim categories and apportion cost appropriately.

This methodology assumes that the population of policyholders is subject to similar rates of cancer incidence as the general population, which may not necessarily be the case. This is considered to be an appropriate judgement given the lack of substantial claims history and the relatively small size of the product. The calculation methodology for Plan4Life is kept under review and changes will be made if significant shortcomings are identified.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

D.2.1.4. CLAIMS EXPENSES

The provision for claims expenses is an estimate of the costs of handling those incurred claims that are represented by the claims provision. This is based on recent actual costs incurred by the claims handling department and an estimate of the time it will take the claims team to handle claims incurred. The basis of the calculation is kept under review and will change if and when it is considered necessary.

D.2.2. PREMIUMS PROVISION

Both the regulatory balance sheet and statutory balance sheet have a concept of a premiums provision. However, they differ in definition.

The statutory balance sheet contains an unearned premiums provision, which represents the total of all premiums received in advance of the periods that they actually cover. This is because a policyholder cancellation could potentially lead to the repayment of all premiums received in advance.

The Solvency II regulatory balance sheet replaces the GAAP provision with the total amount of claims that is it estimated will be incurred in future periods covered by unearned premiums. The concept of recognising future liabilities in this way is not a feature of generally accepted accounting practice, giving rise to a difference between the regulatory and statutory approaches.

The regulatory premiums provision is calculated by applying the average claims ratio experienced by the Group to the amount of unearned premiums. This assumes that all of the contracts represented by the unearned premium will remain in force for the periods covered by premiums paid in advance. Given the monthly renewal of most of the Group's insurance contracts, this need not be the case – a policyholder could cancel their policy and be refunded for the future months they had paid for in advance. This adds a small degree of prudence to the calculation but this is considered to be immaterial in the overall context of the Group's balance sheet, given the overall total of unearned premiums.

This difference between the Solvency II and UK GAAP treatments gives rise to a reduction in technical provisions for regulatory purposes of £92k.

D.2.3. RISK MARGIN

The risk margin is a concept introduced by the Solvency II regulations and does not have an equivalent under UK GAAP. This therefore causes additional liability of £417k to be recognised on the regulatory balance sheet as compared to the statutory balance sheet.

The risk margin is an estimate of the cost to a theoretical third party of raising and holding the necessary capital it would require to cover the additional Solvency Capital Requirement that would arise were they to acquire the Group's book of insurance business. In the regulations, this is calculated by taking the Solvency Capital Requirement attached to the insurance business (including policyholder and other insurance receivables) for each future year of the business and applying a given cost of capital.

D.3. OTHER LIABILITIES

Under Solvency II, liabilities should be valued at the amount for which they could be transferred or settled between knowledgeable, willing parties in an arm's length transaction.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

The material categories of liability, other than technical provisions, are covered in more detail below.

D.3.1. DEFINED BENEFIT PENSION SCHEME

The Group operates a legacy defined benefit pension scheme for current and former employees. The scheme is closed to new entrants and closed to future accrual of benefit. The scheme comprises the present value of the amounts estimated to be paid in future to beneficiaries, as well as a portfolio of investments intended to support these payments. The benefit obligation presented on the regulatory and statutory balance sheets is the net of the scheme's asset and liability positions.

The pension scheme assets comprise equities, corporate and government bonds, as well as collective investment fund holdings. These are valued in the same way as the equivalent assets held outside of the pension scheme as described in D.1.4.

Pension scheme liabilities are valued on an actuarial basis using the projected unit method by third party pension scheme actuaries, Quattro Pensions. These calculations are performed so as to be compatible with the FRS 102 basis of the Group's statutory accounts, however this method is also compatible with the requirements of international financial reporting standards and Solvency II.

The key assumptions utilised by the actuaries in arriving at their estimate of the liabilities are current high-quality corporate bond yields, rates of inflation, and life expectancy of scheme members. The valuation of the scheme liabilities is sensitive to changes in any of these major assumptions.

D.3.2. DEBTS WITH CREDIT INSTITUTIONS

This balance represents drawings on the Group's revolving credit facility at the valuation date. This amount is to be settled within one year and is valued using the UK GAAP amortised cost accounting methodology. There is no difference between this and the Solvency II valuation.

D.3.3. OTHER PAYABLES

Trade payables include payables that are not directly and solely associated with insurance, including day-to-day trading items such as utility and other supplier payables, as well as tax and social security liabilities.

These liabilities are primarily short term (falling due within 12 months) and are simple in nature in that they are transferrable for a known value at a known point in time. As such, the valuation method for liabilities is the same in both regulatory and statutory balance sheets.

The difference of £817k between the regulatory and GAAP balance sheets is a result of the difference in treatment of related undertakings as discussed in D.1.4.

D.4. ALTERNATIVE METHODS FOR VALUATION

BHSF Group does not make use of any alternative methods for valuation.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

D.5. ANY OTHER INFORMATION

There is no further information on capital management to disclose.

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SECTION E: CAPITAL MANAGEMENT

This chapter provides detail on the structure of the Group's capital resources and the regulatory levels of capital that must be held by the Group.

E.1. OWN FUNDS

BHSF Group Limited, the ultimate sole owner of all companies in the BHSF Group is not-for-profit, limited by guarantee. This means that the Group is unable to raise capital using many methods that are available to most other companies.

As a result, the Group has no capital instruments in issue, and has no subordinated or other forms of liability which may serve as capital. The Group's own funds are comprised of the excess of the value of assets over liabilities and is the Solvency II regulatory equivalent of the accumulated fund in the Annual Report and Accounts. This is analysed as net deferred tax assets and a remaining "reconciliation reserve".

	2016	Ref
	£'000	
Assets	35,762	D.1
Technical Provisions	(2,598)	D.2
Other liabilities	(5,606)	D.3
Excess of assets over liabilities	<u>27,558</u>	
Analysed as:		
Net deferred tax assets	120	
Reconciliation reserve	27,438	
Excess of assets over liabilities	<u>27,558</u>	

The reconciliation reserve represents the accumulated profits over the entire trading history of the Group. These profits have been invested in the various assets covered in greater detail in section D. There are no restrictions on the use of this reserve that would prevent it being used to meet regulatory capital requirements. Under the Solvency II regulations, this means that all of the Group's reconciliation reserve belongs to the high quality 'tier one'.

Net deferred tax assets are classed as 'tier three'. These are a relatively small part of the Group's capital position, and arise automatically as a result of the many differences between UK tax law and UK accounting standards.

Although the lack of restriction on the reconciliation reserve provides the Group with a degree of freedom in its use of those funds, the fact that the Group is unable to raise capital from other sources means that the Group manages its capital resources conservatively. The Company's capital is managed by the board and in particular, the board's Investment, Audit, and Risk and Compliance committees play key roles in ensuring the appropriate management of capital and safeguarding of assets.

There have been no unusual movements in any elements of own funds during the last year. Movements comprise total comprehensive income per the Group's financial statements plus Solvency II adjustments that arise as a result of changes in the difference between the UK GAAP balance sheet and the Solvency II balance sheet over the course of the year.

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SECTION E: CAPITAL MANAGEMENT (continued)

	2016 £'000
Opening own funds	28,541
Total comprehensive expenditure for the year	(1,065)
Solvency II adjustments	82
Closing own funds	<u>27,558</u>

The Group has the ability to move capital between its various subsidiaries. Capital can be received from subsidiary companies via dividend where the particular subsidiary's policies allow for this. Each subsidiary company has a dividend policy that restricts the circumstances under which dividends can be paid. In particular, BHSF Limited's dividend policy prevents dividend payments where the extraction would result in BHSF Limited's solvency ratio falling below a level of tolerance set by the BHSF Limited Board. Capital received can then be passed into another subsidiary by way of formal investment.

During the year, formal investment by BHSF Group Limited was made into BHSF Corporate Healthcare (Holdings) Limited and subsequently into BHSF Occupational Health Limited for the purposes of acquiring new subsidiaries. The amounts invested in this way during the year totalled £2.0m. This was financed in part by a £1.0m dividend from BHSF Limited. No other significant amounts were moved around the Group during the year via other methods.

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The Group's Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) are calculated using the standard formula provided by the Solvency II regulations. The Group does not make any significant simplifications within the standard formula.

In line with the Group's prudent approach to capital management, none of the available transitional measures for calculating the SCR have been taken advantage of. These generally serve to smooth the transition into Solvency II from the former Solvency I regulatory regime. Generally speaking, these allow the SCR to increase more gradually over time from its Solvency I position to the final Solvency II position so that insurers can make the necessary changes to their capital structure over time. The Group, having a simple capital structure and large capital reserves, is able to move directly to final Solvency II calculations. This results in a larger SCR, but means that policyholders and other users of the SFCR are receiving clear, transparent information about the capital strength of the Group under the new regulations.

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SECTION E: CAPITAL MANAGEMENT (continued)

The different components of the SCR under the standard formula are as set out below. Also quoted below are the levels of own funds and the resulting solvency ratio

	2016 £'000
Market Risk	8,759
Health Risk	5,797
Counterparty Default Risk	1,475
Diversification	(3,840)
Operational Risk	1,063
Loss absorption of deferred tax	(363)
Solvency Capital Requirement	12,891
SCR for related undertakings	272
Total Group SCR	13,163
Own Funds	27,558
Group Solvency Ratio	209%

This result indicates the Group is in a strong capital position, having enough capital to suffer an extremely severe shock and still remain compliant with the SCR and able to continue serving cash plan policyholders.

The MCR is calculated based on a formula set out in the regulations for non-life insurers. This results in an MCR as at 31 December 2016 as follows:

	2016 £'000
Group MCR	3,189

Given the strong solvency ratio reported above, the Group's ratio of own funds to minimum capital requirement is extremely high at 864%. This indicates the risk of the Group failing to meet its MCR is extremely low.

E.3. USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

BHSF Group has not made any use of the duration-based equity risk submodule in its calculation of the Solvency Capital Requirement.

E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

BHSF Group does not make use of any internal model and therefore there are no differences to report in this section.

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SECTION E: CAPITAL MANAGEMENT (continued)

**E.5. COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND
COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT**

There has been no non-compliance with either the Group's SCR or MCR over the previous 12 months.

E.6. ANY OTHER INFORMATION

There is no further information on capital management to disclose.

BHSF LIMITED
SOLO REGULATORY TEMPLATES

S.02.01.02

Balance sheet

Assets

	Solvency II value
Intangible assets	
Deferred tax assets	327
Pension benefit surplus	
Property, plant & equipment held for own use	1,522
Investments (other than assets held for index-linked and unit-linked contracts)	22,339
<i>Property (other than for own use)</i>	987
<i>Holdings in related undertakings, including participations</i>	0
<i>Equities</i>	8,713
<i>Equities - listed</i>	8,697
<i>Equities - unlisted</i>	17
<i>Bonds</i>	8,548
<i>Government Bonds</i>	3,829
<i>Corporate Bonds</i>	4,718
<i>Structured notes</i>	0
<i>Collateralised securities</i>	0
<i>Collective Investments Undertakings</i>	4,091
<i>Derivatives</i>	
<i>Deposits other than cash equivalents</i>	0
<i>Other investments</i>	0
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	0
<i>Loans on policies</i>	0
<i>Loans and mortgages to individuals</i>	
<i>Other loans and mortgages</i>	
Reinsurance recoverables from:	158
<i>Non-life and health similar to non-life</i>	158
<i>Non-life excluding health</i>	0
<i>Health similar to non-life</i>	158
<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
<i>Health similar to life</i>	
<i>Life excluding health and index-linked and unit-linked</i>	
<i>Life index-linked and unit-linked</i>	
Deposits to cedants	0
Insurance and intermediaries receivables	1,851
Reinsurance receivables	
Receivables (trade, not insurance)	436
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	6,727
Any other assets, not elsewhere shown	
Total assets	33,360

BHSF LIMITED
SOLO REGULATORY TEMPLATES

S.02.01.02

	Solvency II value
Liabilities	
Technical provisions - non-life	2,598
<i>Technical provisions - non-life (excluding health)</i>	0
<i>TP calculated as a whole</i>	0
<i>Best Estimate</i>	0
<i>Risk margin</i>	0
<i>Technical provisions - health (similar to non-life)</i>	2,598
<i>TP calculated as a whole</i>	0
<i>Best Estimate</i>	2,180
<i>Risk margin</i>	417
Technical provisions - life (excluding index-linked and unit-linked)	0
<i>Technical provisions - health (similar to life)</i>	0
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - index-linked and unit-linked	0
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	1,913
Deposits from reinsurers	
Deferred tax liabilities	163
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	298
Reinsurance payables	
Payables (trade, not insurance)	1,723
Subordinated liabilities	0
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	0
Any other liabilities, not elsewhere shown	
Total liabilities	6,695
Excess of assets over liabilities	26,665

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S.05.01.02

Premiums, claims and expenses
by line of business

Non-life

Medical expense insurance	Total

Premiums written

Gross - Direct Business

35,402	35,402
--------	--------

Gross - Proportional reinsurance accepted

	0
--	---

Gross - Non-proportional reinsurance accepted

	0
--	---

Reinsurers' share

383	383
-----	-----

Net

35,019	35,019
--------	--------

Premiums earned

Gross - Direct Business

35,441	35,441
--------	--------

Gross - Proportional reinsurance accepted

	0
--	---

Gross - Non-proportional reinsurance accepted

	0
--	---

Reinsurers' share

383	383
-----	-----

Net

35,058	35,058
--------	--------

Claims incurred

Gross - Direct Business

24,765	24,765
--------	--------

Gross - Proportional reinsurance accepted

	0
--	---

Gross - Non-proportional reinsurance accepted

	0
--	---

Reinsurers' share

171	171
-----	-----

Net

24,594	24,594
--------	--------

Changes in other technical provisions

Gross - Direct Business

157	157
-----	-----

Gross - Proportional reinsurance accepted

	0
--	---

Gross - Non-proportional reinsurance accepted

	0
--	---

Reinsurers' share

6	6
---	---

Net

151	151
-----	-----

Expenses incurred

10,181	10,181
--------	--------

Other expenses

--	--

Total expenses

	10,181
--	--------

BHSF LIMITED
SOLO REGULATORY TEMPLATES

S.05.02.01

**Premiums, claims and expenses
by country**

Non-life

Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country

Premiums written

Gross - Direct Business

Gross - Proportional reinsurance accepted

Gross - Non-proportional reinsurance accepted

Reinsurers' share

Net

35,402						35,402
						0
						0
383						383
35,019	0	0	0	0	0	35,019

Premiums earned

Gross - Direct Business

Gross - Proportional reinsurance accepted

Gross - Non-proportional reinsurance accepted

Reinsurers' share

Net

35,441						35,441
						0
						0
383						383
35,058	0	0	0	0	0	35,058

Claims incurred

Gross - Direct Business

Gross - Proportional reinsurance accepted

Gross - Non-proportional reinsurance accepted

Reinsurers' share

Net

24,765						24,765
						0
						0
171						171
24,594	0	0	0	0	0	24,594

Changes in other technical provisions

Gross - Direct Business

Gross - Proportional reinsurance accepted

Gross - Non-proportional reinsurance accepted

Reinsurers' share

Net

157						157
						0
						0
6						6
151	0	0	0	0	0	151

Expenses incurred

Other expenses

Total expenses

10,181						10,181
						10,181

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S.17.01.02

Non-Life Technical Provisions

Direct business and accepted proportional reinsurance	Total Non-Life obligation
Medical expense insurance	

Technical provisions calculated as a whole

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

0	0
	0

Technical provisions calculated as a sum of BE and RM

Best estimate

Premium provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Premium Provisions

219	219
	0
219	219

Claims provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Claims Provisions

1,962	1,962
158	158
1,804	1,804

Total best estimate - gross

Total best estimate - net

2,180	2,180
2,023	2,023

Risk margin

417	417
-----	-----

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

	0
	0
	0

Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

2,598	2,598
158	158
2,440	2,440

BHSF LIMITED
SOLO REGULATORY TEMPLATES

S.19.01.21

Non-Life insurance claims

Total Non-life business

Accident year / underwriting year

Gross Claims Paid (non-cumulative)
(absolute amount)

Year	Development year										In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +	
Prior											0	0
N-9	0	0	0	0	0	0	0	0	0	0		0
N-8	0	0	0	0	0	0	0	0	0			0
N-7	0	0	0	0	0	0	0	0				0
N-6	0	0	0	0	0	0	0					0
N-5	0	0	0	0	0	0						0
N-4	0	0	0	0	0							0
N-3	20,900	1,167		1								22,076
N-2	21,509	1,281	59									22,849
N-1	22,456	1,236										23,692
N	22,411											22,411
Total											23,708	91,028

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

Year	Development year										Year end (discounted data)
	0	1	2	3	4	5	6	7	8	9	10 & +
Prior											0
N-9	0	0	0	0	0	0	0	0	0	0	
N-8	0	0	0	0	0	0	0	0	0		
N-7	0	0	0	0	0	0	0	0			
N-6	0	0	0	0	0	0	0				
N-5	0	0	0	0	0	0					
N-4	0	0	0	0	0						
N-3	0	0	0	0							
N-2	0	0	25								
N-1	0	13									
N	1,924										
Total											1,962

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S.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

Ordinary share capital (gross of own shares)

Share premium account related to ordinary share capital

Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings

Subordinated mutual member accounts

Surplus funds

Preference shares

Share premium account related to preference shares

Reconciliation reserve

Subordinated liabilities

An amount equal to the value of net deferred tax assets

Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand

A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

Total ancillary own funds

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
0	0		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
26,501	26,501			
0		0	0	0
164				164
0	0	0	0	0

0

0				
26,665	26,501	0	0	164

0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

BHSF LIMITED
SOLO REGULATORY TEMPLATES

Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

26,665	26,501	0	0	164
26,501	26,501	0	0	
26,665	26,501	0	0	164
26,501	26,501	0	0	

12,755
3,189
209.05%
831.07%

26,665
0
164
0
26,501

0

BHSF LIMITED
SOLO REGULATORY TEMPLATES

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

Market risk

Counterparty default risk

Life underwriting risk

Health underwriting risk

Non-life underwriting risk

Diversification

Intangible asset risk

Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

Operational risk

Loss-absorbing capacity of technical provisions

Loss-absorbing capacity of deferred taxes

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency Capital Requirement excluding capital add-on

Capital add-ons already set

Solvency capital requirement

Other information on SCR

Capital requirement for duration-based equity risk sub-module

Total amount of Notional Solvency Capital Requirements for remaining part

Total amount of Notional Solvency Capital Requirements for ring fenced funds

Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

Gross solvency capital requirement	USP	Simplifications
------------------------------------	-----	-----------------

8,754		
1,153		
5,797		
0		
-3,649		

0

12,055

C0100

1,063
0
-363
12,755
12,755

BHSF LIMITED
SOLO REGULATORY TEMPLATES

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

MCR_{NL} Result

1,741

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
---	---

Medical expense insurance and proportional reinsurance
Income protection insurance and proportional reinsurance
Workers' compensation insurance and proportional reinsurance
Motor vehicle liability insurance and proportional reinsurance
Other motor insurance and proportional reinsurance
Marine, aviation and transport insurance and proportional reinsurance
Fire and other damage to property insurance and proportional reinsurance
General liability insurance and proportional reinsurance
Credit and suretyship insurance and proportional reinsurance
Legal expenses insurance and proportional reinsurance
Assistance and proportional reinsurance
Miscellaneous financial loss insurance and proportional reinsurance
Non-proportional health reinsurance
Non-proportional casualty reinsurance
Non-proportional marine, aviation and transport reinsurance
Non-proportional property reinsurance

2,023	35,019
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	

Linear formula component for life insurance and reinsurance obligations

MCR_L Result

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
---	---

Obligations with profit participation - guaranteed benefits
Obligations with profit participation - future discretionary benefits
Index-linked and unit-linked insurance obligations
Other life (re)insurance and health (re)insurance obligations
Total capital at risk for all life (re)insurance obligations

Overall MCR calculation

Linear MCR

1,741

SCR

12,755

MCR cap

5,740

MCR floor

3,189

Combined MCR

3,189

Absolute floor of the MCR

2,251

Minimum Capital Requirement

3,189

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

S.02.01.02

Balance sheet

Assets

	Solvency II value
Intangible assets	
Deferred tax assets	334
Pension benefit surplus	
Property, plant & equipment held for own use	1,619
Investments (other than assets held for index-linked and unit-linked contracts)	22,972
<i>Property (other than for own use)</i>	987
<i>Holdings in related undertakings, including participations</i>	633
<i>Equities</i>	8,713
<i>Equities - listed</i>	8,697
<i>Equities - unlisted</i>	17
<i>Bonds</i>	8,548
<i>Government Bonds</i>	3,829
<i>Corporate Bonds</i>	4,718
<i>Structured notes</i>	0
<i>Collateralised securities</i>	0
<i>Collective Investments Undertakings</i>	4,091
<i>Derivatives</i>	
<i>Deposits other than cash equivalents</i>	0
<i>Other investments</i>	0
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	0
<i>Loans on policies</i>	0
<i>Loans and mortgages to individuals</i>	
<i>Other loans and mortgages</i>	
Reinsurance recoverables from:	158
<i>Non-life and health similar to non-life</i>	158
<i>Non-life excluding health</i>	
<i>Health similar to non-life</i>	158
<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
<i>Health similar to life</i>	
<i>Life excluding health and index-linked and unit-linked</i>	
<i>Life index-linked and unit-linked</i>	
Deposits to cedants	0
Insurance and intermediaries receivables	1,851
Reinsurance receivables	
Receivables (trade, not insurance)	1,376
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	7,445
Any other assets, not elsewhere shown	7
Total assets	35,762

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

S.02.01.02

	Solvency II value
Liabilities	
Technical provisions - non-life	2,598
<i>Technical provisions - non-life (excluding health)</i>	0
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
<i>Technical provisions - health (similar to non-life)</i>	2,598
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	2,180
<i>Risk margin</i>	417
Technical provisions - life (excluding index-linked and unit-linked)	0
<i>Technical provisions - health (similar to life)</i>	0
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - index-linked and unit-linked	0
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Contingent liabilities	
Provisions other than technical provisions	63
Pension benefit obligations	1,913
Deposits from reinsurers	
Deferred tax liabilities	214
Derivatives	
Debts owed to credit institutions	504
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	
Reinsurance payables	
Payables (trade, not insurance)	2,912
Subordinated liabilities	0
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	0
Any other liabilities, not elsewhere shown	
Total liabilities	8,204
Excess of assets over liabilities	27,558

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

S.05.01.02

Premiums, claims and expenses
by line of business

Non-life

Medical expense insurance	Total
---------------------------------	-------

Premiums written

Gross - Direct Business

35,402	35,402
--------	--------

Gross - Proportional reinsurance accepted

	0
--	---

Gross - Non-proportional reinsurance accepted

	0
--	---

Reinsurers' share

383	383
-----	-----

Net

35,019	35,019
--------	--------

Premiums earned

Gross - Direct Business

35,441	35,441
--------	--------

Gross - Proportional reinsurance accepted

	0
--	---

Gross - Non-proportional reinsurance accepted

	0
--	---

Reinsurers' share

383	383
-----	-----

Net

35,058	35,058
--------	--------

Claims incurred

Gross - Direct Business

24,765	24,765
--------	--------

Gross - Proportional reinsurance accepted

	0
--	---

Gross - Non-proportional reinsurance accepted

	0
--	---

Reinsurers' share

171	171
-----	-----

Net

24,594	24,594
--------	--------

Changes in other technical provisions

Gross - Direct Business

157	157
-----	-----

Gross - Proportional reinsurance accepted

	0
--	---

Gross - Non-proportional reinsurance accepted

	0
--	---

Reinsurers' share

6	6
---	---

Net

151	151
-----	-----

Expenses incurred

9,643	9,643
-------	-------

Other expenses

--	--

Total expenses

	9,643
--	-------

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

S.05.02.01

Premiums, claims and expenses
by country

Non-life

Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country

Premiums written

Gross - Direct Business

Gross - Proportional reinsurance accepted

Gross - Non-proportional reinsurance accepted

Reinsurers' share

Net

35,402						35,402
						0
						0
383						383
35,019	0	0	0	0	0	35,019

Premiums earned

Gross - Direct Business

Gross - Proportional reinsurance accepted

Gross - Non-proportional reinsurance accepted

Reinsurers' share

Net

35,441						35,441
						0
						0
383						383
35,058	0	0	0	0	0	35,058

Claims incurred

Gross - Direct Business

Gross - Proportional reinsurance accepted

Gross - Non-proportional reinsurance accepted

Reinsurers' share

Net

24,765						24,765
						0
						0
171						171
24,594	0	0	0	0	0	24,594

Changes in other technical provisions

Gross - Direct Business

Gross - Proportional reinsurance accepted

Gross - Non-proportional reinsurance accepted

Reinsurers' share

Net

157						157
						0
						0
6						6
151	0	0	0	0	0	151

Expenses incurred

Other expenses

Total expenses

9,643						9,643
						9,643

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

S.23.01.22
Own Funds

Basic own funds before deduction for participations in other financial sector

Ordinary share capital (gross of own shares)
Non-available called but not paid in ordinary share capital at group level
Share premium account related to ordinary share capital
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
Subordinated mutual member accounts
Non-available subordinated mutual member accounts at group level
Surplus funds
Non-available surplus funds at group level
Preference shares
Non-available preference shares at group level
Share premium account related to preference shares
Non-available share premium account related to preference shares at group level
Reconciliation reserve
Subordinated liabilities
Non-available subordinated liabilities at group level
An amount equal to the value of net deferred tax assets
The amount equal to the value of net deferred tax assets not available at the group level
Other items approved by supervisory authority as basic own funds not specified above
Non available own funds related to other own funds items approved by supervisory authority
Minority interests (if not reported as part of a specific own fund item)
Non-available minority interests at group level

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
0	0		0	
0				
0	0		0	
0	0		0	
0		0	0	0
0				
0	0			
0	0			
0		0	0	0
0				
0		0	0	0
0				
27,438	27,438			
0		0	0	0
0				
120				120
0				0
0	0	0	0	0
0				
0				
0				

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities
whereof deducted according to art 228 of the Directive 2009/138/EC
Deductions for participations where there is non-availability of information (Article 229)
Deduction for participations included by using D&A when a combination of methods is used

Total of non-available own fund items

Total deductions

Total basic own funds after deductions

0				
0				
0				
0				
0	0	0	0	0
0	0	0	0	0
27,558	27,438	0	0	120

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand
 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
 Unpaid and uncalled preference shares callable on demand
 A legally binding commitment to subscribe and pay for subordinated liabilities on demand
 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 Non available ancillary own funds at group level
 Other ancillary own funds

Total ancillary own funds

Own funds of other financial sectors

Credit Institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions
 Institutions for occupational retirement provision
 Non regulated entities carrying out financial activities

Total own funds of other financial sectors

0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

0				
0				
0				
0	0	0	0	0

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

Basic own funds before deduction for participations in other financial sector

Own funds when using the D&A, exclusively or in combination of method 1

Own funds aggregated when using the D&A and combination of method

Own funds aggregated when using the D&A and combination of method net of IGT

Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)

Total available own funds to meet the minimum consolidated group SCR

Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)

Total eligible own funds to meet the minimum consolidated group SCR (group)

Minimum consolidated Group SCR

Ratio of Eligible own funds to Minimum Consolidated Group SCR

Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)

Group SCR

Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Forseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Other non available own funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
-------	------------------------	----------------------	--------	--------

0				
0				

27,558	27,438	0	0	120
27,438	27,438	0	0	
27,558	27,438	0	0	120
27,438	27,438	0	0	

3,189				
860.45%				
27,558	27,438	0	0	120
13,163				
209.35%				

27,558
120
0
27,438

0

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

Market risk
Counterparty default risk
Life underwriting risk
Health underwriting risk
Non-life underwriting risk
Diversification

Intangible asset risk

Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

Operational risk
Loss-absorbing capacity of technical provisions
Loss-absorbing capacity of deferred taxes
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency Capital Requirement excluding capital add-on

Capital add-ons already set

Solvency capital requirement for undertakings under consolidated method

Other information on SCR

Capital requirement for duration-based equity risk sub-module
Total amount of Notional Solvency Capital Requirements for remaining part
Total amount of Notional Solvency Capital Requirements for ring fenced funds
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
Diversification effects due to RFF nSCR aggregation for article 304
Minimum consolidated group solvency capital requirement

Information on other entities

Capital requirement for other financial sectors (Non-insurance capital requirements)
*Credit institutions, investment firms and financial institutions, alternative investment funds managers,
UCITS management companies*
Institutions for occupational retirement provisions
Capital requirement for non-regulated entities carrying out financial activities
Capital requirement for non-controlled participation requirements
Capital requirement for residual undertakings

Overall SCR

SCR for undertakings included via D&A

Solvency capital requirement

Gross solvency capital requirement	USP	Simplifications
8,759		
1,475		
5,797		
0		
-3,840		
0		
12,191		
C0100		
1,063		
0		
-363		
12,891		
13,163		
3,189		
0		
272		
13,163		

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

S.32.01.22

Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)
GB	213800ATVVLFDNDW9OT12	LEI	BHSF Group Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Limited by guarantee	Non-mutual
GB	2138002IE1X75AGYZC39	LEI	BHSF Limited	Non life insurance undertaking	Limited by guarantee	Non-mutual
GB	213800VPE916J6DCPG03	LEI	BHSF Employee Benefits Limited	Other	Limited by shares	Non-mutual
GB	2138007WVTWYTYNOKT81	LEI	BHSF Corporate Healthcare (Holdings) Limited	Other	Limited by shares	Non-mutual
GB	213800HT1C514KKWPL90	LEI	BHSF Occupational Health Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited by shares	Non-mutual
GB	213800VHCS69RC91Z391	LEI	BHSF Newhall Medical Practice Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited by shares	Non-mutual
GB	213800KAIX4PN5SSGY29	LEI	Nexus Healthcare Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited by shares	Non-mutual
GB	213800VPE916J6DCPG03GB00001	Specific code	Network Insurance Brokers Limited	Other	Limited by shares	Non-mutual
GB	2138007WVTWYTYNOKT81GB00001	Specific code	Abbott Burke Associates Limited	Other	Limited by shares	Non-mutual
GB	213800HT1C514KKWPL90GB00001	Specific code	Occupational Health Consultants Limited	Other	Limited by shares	Non-mutual
GB	213800HT1C514KKWPL90GB00002	Specific code	WellWork Limited	Other	Limited by shares	Non-mutual
GB	213800HT1C514KKWPL90GB00003	Specific code	M3OH Services Limited	Other	Limited by shares	Non-mutual

BHSF GROUP LIMITED
CONSOLIDATED REGULATORY TEMPLATES

S.32.01.22

Undertakings in the scope of the group

				Criteria of influence					
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation
GB	213800ATVVLFDNDW9OT12	LEI	Prudential Regulation Authority					Dominant	
GB	2138002IE1X75AGYZC39	LEI	Prudential Regulation Authority	100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	213800VPE916J6DCPG03	LEI		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	2138007WVTWYTYNOKT81	LEI		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	213800HT1C514KKWPL90	LEI		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	213800VHCS69RC91Z391	LEI		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	213800KAIX4PN5SSGY29	LEI		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	213800VPE916J6DCPG03GB00001	Specific code		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	2138007WVTWYTYNOKT81GB00001	Specific code		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	213800HT1C514KKWPL90GB00001	Specific code		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	213800HT1C514KKWPL90GB00002	Specific code		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%
GB	213800HT1C514KKWPL90GB00003	Specific code		100.00%	100.00%	100.00%	Centralised risk management	Dominant	100.00%

S.32.01.22
Undertakings in the scope of the group

			Inclusion in the scope of Group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
GB	213800ATVVLFNNDW9OT12	LEI	Included in the scope		Method 1: Full consolidation
GB	2138002IE1X75AGYZC39	LEI	Included in the scope		Method 1: Full consolidation
GB	213800VPE916J6DCPG03	LEI	Included in the scope		Method 1: Adjusted equity method
GB	2138007WVTWYTYNOKT81	LEI	Included in the scope		Method 1: Adjusted equity method
GB	213800HT1C514KKWPL90	LEI	Included in the scope		Method 1: Full consolidation
GB	213800VHCS69RC91Z391	LEI	Included in the scope		Method 1: Full consolidation
GB	213800KAIX4PN5SSGY29	LEI	Included in the scope		Method 1: Full consolidation
GB	213800VPE916J6DCPG03GB00001	Specific code	Included in the scope		Method 1: Adjusted equity method
GB	2138007WVTWYTYNOKT81GB00001	Specific code	Included in the scope		Method 1: Adjusted equity method
GB	213800HT1C514KKWPL90GB00001	Specific code	Included in the scope		Method 1: Adjusted equity method
GB	213800HT1C514KKWPL90GB00002	Specific code	Included in the scope		Method 1: Adjusted equity method
GB	213800HT1C514KKWPL90GB00003	Specific code	Included in the scope		Method 1: Adjusted equity method

Report of the external independent auditor to the Directors of BHSF Group Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition

Opinion

Except as stated below, we have audited the following documents prepared by BHSF Group Limited as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of BHSF Group Limited as at 31 December 2016, (**'the Narrative Disclosures subject to audit'**); and
- Company templates S02.01.02 [S12.01.01, S17.01.02, S22.01.21, S23.01.01, S25.01.21, S28.01.01, S28.02.01] (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report (**'the Responsibility Statement'**).

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of BHSF Group Limited as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern

basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, 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 relevant elements of the Solvency and Financial Condition Report 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.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/>

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of BHSF Group Limited's statutory financial statements. 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.

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a series of loops and a long horizontal stroke.

David Roberts
For and on behalf of BDO LLP
London, UK

Date: 13 June 2017

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

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
 - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
 - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
 - Column C0030 – Impact of transitional measure on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.