BHSF Group Limited

Annual report and accounts

2018

bhsf

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

BHSF Group Limited is a "not-for-profit" company, limited by guarantee.
Registered in England No. 4767689. Incorporated 16 May 2003.

Our History

Our history, from our foundation in 1873, is one of service to the community. An eminent Birmingham surgeon, Joseph Sampson Gamgee, proposed that in addition to the annual Hospital Sunday, when churches gave all their collections to the voluntary hospitals, there should also be a Hospital Saturday with special collections.

In particular, he suggested that workers be invited to work overtime on one Saturday afternoon in the year, especially to donate their earnings to the Birmingham Hospital Saturday Fund for distribution to voluntary hospitals. From these modest beginnings, similar organisations sprang up in other cities and towns and there are now nearly four million people insured under schemes which began in this way.

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

Meanwhile, from 1892 until 2004 BHSF offered a convalescence service which enabled thousands of people to recover their health after illness or surgery, enabling them to return to their normal way of life much more quickly.
For very many years BHSF has been a leading provider of health cash plans and in more recent years has widened its scope to offer a range of employee benefits and a portfolio of HR support services, including occupational health.

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

Our purpose

To have a positive impact on the health and wellbeing of the people we reach.

Our mission as a not-for-profit business

To provide health and wellbeing products and services to help our customers care for their employees; to support colleagues' career aspirations; and to support local communities through our work with good causes.

Our values

Open, honest and fair – we are honest and fair in all we do.

Genuine care and respect – we want to do the right thing for our customers, colleagues and communities.

Proactive – we own the problem and get involved to improve the outcome.

Innovative – we create products which meet future customer needs and ensure our processes are effective and efficient.

Knowledgeable – we have expertise in workplace health products and services.

Chairman's statement

The pace of change within BHSF has continued through 2018 as the business invests in the future, ensuring that we meet the needs of our customers over the coming years. Face-to-face contact continues to be essential and very important across the BHSF Group, however offering our customers different ways to access information about the products we provide depending on their preferred choice of engagement, whether it be smartphones, the BHSF website, telephone or post is increasingly necessary. Being efficient, flexible and responsive to our customers is very important to all of us at BHSF. We have therefore been investing heavily in new IT systems and this will continue during 2019/2020 and will form part of a wider transformation programme.

Being a health and wellbeing company offering a broad range of products to employers and individuals is a key strategic direction which we have taken. The absorption of several occupational health companies, which have been acquired over the last seven years, into BHSF Occupational Health, has been largely completed and I thank all those directly involved for all their hard work. These acquisitions and the subsequent work in creating a 'one company' health and wellbeing approach is now starting to bear fruit. Our new products and services are proving to be attractive to our customers and we have been successful in winning a number of national leading accounts.

I am delighted that Sara Fowler a forensic accounting expert, former Midland's senior partner with EY, former chair of the CBI West Midlands, current chair of St Basil's Birmingham based homelessness charity and housing association, has joined the BHSF Group as a non-executive director. Her appointment builds on the Board changes last year as we replace long-serving directors who reach the end of their terms of office and we seek people with high levels of expertise to help steer the BHSF Group strategy within the health and wellbeing arena. We will be active in strengthening our Board further in 2019.

The investment in embedding past acquisitions and new systems, along with the volatile investment markets, goes someway to explain the financial results for 2018. We expect our financial performance in 2019 and 2020 to be substantially better enabling us to start to deliver on one of our key strategic aims of creating a lasting legacy within the communities we serve. As a 'not-for-profit' company we have a wonderful opportunity to make a real difference to peoples' health and wellbeing and the Board is determined to lead and deliver on this objective underpinned by a strong financial performance in the future.

Last year I mentioned the work which was being undertaken to strengthen our governance arrangements throughout the Group and this has now largely been completed. Along with a much improved risk and compliance management regime our emphasis must now be to ensure that good governance and effective risk management are embedded throughout our operational activity and they are the business norm.

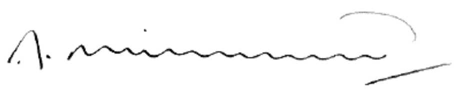
Investing in our employees is very important to the Board and is central to our core values and culture. Our culture and values are fundamental to everything we do and they set the way in which we wish to operate and meet the needs of our customers and suppliers. We have introduced new training programmes, which support how we wish to operate, for all our employees and directors. Some of this is delivered online and in-house with the remainder delivered externally depending on the particular requirement. The demands within any business are ever more complex and if we are to deliver excellent products and service then we must support our employees' personal development to achieve this.

In the past year we established a unique training programme for qualified doctors and nurses looking to convert to occupational health, the strategic concept of our Chief Medical Officer, Dr Philip McCrea. This has already seen benefits flowing through into our occupational health business. We are attracting enthusiastic, highly motivated and talented people to our company and their commitment to what we are delivering for our customers is exemplary. I wish to pay tribute to all those involved and especially those given leadership roles in implementing change and delivering improvements.

BHSF Group operates throughout the United Kingdom as well as providing occupational health services to the Republic of Ireland. We deliver a very broad range of health and wellbeing products including occupational health, employee resilience products, health cash plans and niche insurance products. With the plans that we have and are developing as part of our continuing transformation agenda I have confidence as Chairman that we are putting in place the strong foundations and flexibility required to meet the demands of the future.

The executive directors run the day-to-day operations of the business and the independent non-executive directors provide challenge, advice and oversight. I feel privileged to be working with a team of dedicated and energetic directors with a passion for driving the BHSF Group forward in a manner consistent with our Group purpose to have a positive impact on the health and wellbeing of the people we reach.

2018 has been a year of addressing the challenges across the group and investing in ensuring a strong future through the delivery of an effective strategic transformation plan. I now look forward to seeing these changes delivering the expected results in 2019 whilst acknowledging many challenges remain.



Andrew Milner
8 May 2019
Chairman

Group Chief Executive's business review

Introduction

2018 was my first full year at the helm of BHSF Group and it has been an honour for me to do this. It has certainly been a very busy year with many regulatory, governance and technological changes. However, BHSF is no stranger to change as it has continued to evolve over its 146 year history.

Strategy

On 5 January 2018, I presented the strategy to the staff at a special event held at the MAC in Cannon Hill Park, Birmingham. Following that our focus turned to delivering this strategy, with particular emphasis on the "one business vision", the training platform and the overall culture of the business.

Results for the year

2018 was a very difficult year for the economy and at BHSF we encountered what could be described as a perfect storm. In the underwriting company the claims ratio, normally so consistent, rose significantly. The continuing economic uncertainty, not just in the UK but around the world, has resulted in a reduction of 12% in the value of our investment portfolio and there was an increase in the pension scheme deficit. On the plus side, I am pleased to report that the sales teams had another very good year. Excluding 2017's acquisition of the Benenden book of health cash plans, there were record sales in excess of £10m of new annual premiums, an 18% increase on the 2017 equivalent. A huge thank you must go to all the sales staff and also the back office staff who process this new business.

Due to the above, group wide revenue grew by 10% to £48.8m but, due to increases in claims and operating costs, total comprehensive expenditure (our overall loss) for the year was £4.4m compared to total comprehensive income (overall profit) in 2017 of £1.8m.

Regulations

During 2018 there was no let-up in the amount of regulatory work required and this took up a lot of management and staff time. In the Spring of 2018 we published our second Solvency and Financial Condition Report and in December 2018 we submitted our latest Own Risk and Solvency Assessment document to the Prudential Regulation Authority (PRA) and both of these required a great deal of time as we continue to improve these documents. In addition to the Solvency II development, the General Data Protection Regulation (GDPR) came into force in May 2018 and this was a very large project for BHSF. I thank all the people who worked so hard on this and the work did not stop in May. We recently had an external review of our GDPR processes and received a glowing report. Further regulatory work was completed for the Insurance Distribution Directive (IDD) which went live in October 2018 and also the Senior Managers and Certification Regime (SMCR) which went live for BHSF Limited in December 2018 (further work will be required in 2019 for our sales staff).

Insurance business

There was good news in the Autumn Budget when the Chancellor did not further increase Insurance Premium Tax. However due to an increase in our claims, we are having to make price increases in 2019.

Sales of our personal cancer plan, Plan4Life, and our personal accident insurances (both individual and group) have continued to grow steadily. Also the use of our electronic claims service has steadily increased (up to 30% of all claims administered) and we continue to promote this.

Although premiums have increased, claims and operating expenses have increased at a faster pace and this has resulted in a loss on the technical account. Steps are being taken to improve efficiency to address this loss.

Occupational Health and the Medical Practice

2018 has been a very busy year for the occupational health business. The "One Business Vision" has been a key part of our strategy and this is particularly relevant to occupational health which has offices in different parts of the United Kingdom. We have made a conscious effort to make these colleagues feel part of BHSF with regular visits by senior management and monthly news updates specifically aimed at our occupational health colleagues.

At the start of 2019 we moved the London clinic from Hendon to the central location of Harley Street to put BHSF Occupational Health at the heart of London's medical community. The new central location and the quality of the clinical rooms demonstrate BHSF's commitment to continued investment in its occupational health division in order to bring safe, effective and quality occupational health work to employees across the UK and Ireland.

Although the overall result for occupational health in 2018 was disappointing, it continues to increase sales and is making important investments into the future of occupational health provision in the UK by training the next generation of occupational health physicians. There were several large contract wins towards the end of 2018 and this bodes well for improvements in the occupational health results in 2019.

One of the companies that we acquired in 2016 was Newhall Medical Practice, based in central Birmingham. In the Spring of 2018 we relocated this clinic to a newly refurbished office in Cornerblock, close to Snow Hill Station in the heart of Birmingham's business district. We have been setting up new services in this clinic including physiotherapy and mental health services to add to the GP clinic and travel services. This is an exciting new development for the BHSF Group and I look forward to seeing how this develops.

Other products and services

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

The turnover for this company increased by 7% in 2018. Much of this increase was due to the sale of insurance products on behalf of BHSF Limited. However, there were significant increases in non-insurance business and in particular, sales of our smartphone app, BHSF Connect. In 2019 we will be offering a new upgraded version of Connect along with other new exciting products.

At BHSF we are committed to providing our corporate clients with products that can ease the stress on their staff. Products such as Pay4Sure sickness benefit insurance can go a long way to relieving this stress.

Other operational matters

In 2018 the Group's IT team continued to make our systems safer and more efficient. As well as playing a key part in our GDPR work, this team, led by Adrian Hope, was the driving force in our bid to gain the ISO 27001 – information security accreditation, and this was achieved in the Autumn of 2018. It is essential that BHSF can demonstrate that it can protect the data on its systems and defend itself from the ever-increasing risk of cyber-attacks and this accreditation provides strong assurance that customers' data is safe with us.

Investments

UBS manages the investments of both BHSF Limited and of the Group's final salary pension scheme. 2018 was not a good year for investments, particularly towards the end of the year in equities where the FTSE 100 fell by over 12%. The investment income was down slightly year-on-year but there were unrealised losses on investments in both portfolios.

Actuarial

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

During 2017 our actuarial consultants, Quattro Pensions, had performed a triennial valuation on the pension scheme. The result of this was a pension deficit of £352,000 compared to a pension scheme liability in the 2017 accounts of £881,000. The pension scheme liability in the 2018 accounts has increased to £1,256,000 and this increase is largely due to the impact of GMP equalisation, the result of a legal ruling affecting most pension schemes in the UK. During 2018 BHSF has been making a monthly contribution to the pension scheme in order to reduce this deficit further.

People

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

One of the main strategic initiatives has been the introduction of a training academy and Richard Bisiker was recruited to set this up. As well as continuing to grow the occupational health academy where we train our own occupational health nurses, we have an occupational health trainee practitioner based in London; we have gained an ILM accreditation; we are providing training for coaching and mentoring; and Richard has set up an online training portal for compulsory and non-compulsory training, working with AFM on this. Great strides have been taken and we see the ongoing development of our training provision as being critical to the support of staff in their careers.

Worthy of special note in 2018 were the following appointments:

- **Brian Hall,** Chief Commercial Officer, was appointed Chair of the West Midlands Institute of Directors (IoD); and
- **Adrian Hope**, Chief Information Officer, was appointed to the council of the West Midlands Confederation of British Industry (CBI).

Many congratulations to both of them and with Geoff Guerin, our Chief Operations Officer, already a member of the Main Council of the Birmingham Insurance Institute and Chair of its Finance and Management Committee, we have good representation across West Midlands business.

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

Ian R Galer
Group Chief Executive
8 May 2019

Strategic report

Principal business

BHSF Group Limited is a non-trading holding company and is constituted and operates on a not-for profit basis. Through its subsidiaries BHSF provides health cash plans, other insurances, a range of employee benefits, a portfolio of HR support-services together with a growing and market respected occupational health service to 4,000 client businesses and 304,000 policyholders and their families without losing sight of its philanthropic roots.

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

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

Future planning and position of the business

During 2018 and into 2019 we have continued to develop our occupational health service division. Offering services to around 900 client businesses across the UK and in the Republic of Ireland, the division continues to grow. With continued growth and system developments anticipated in 2019, the occupational health division is on a path towards sustainable profitability.
During 2018 we relocated our medical practice service to a prestigious city centre office location, Cornerblock in the heart of Birmingham's central business district. The new office targets the business community providing 'on the spot' GP and related services. Doors opened in January 2019 and the focus for the immediate future is on building our presence as well as expanding the range of services on offer in order to cater for the needs of the busy workers in the area.

We continue to grow our offerings of employee benefit products, and in particular have seen strong growth in usage of BHSF Connect, a service which allows employees of member organisations to access a range of help and advice through their smartphone. Among the services included are legal advice, support for caring for a loved one, and 24-hour GP helplines. 2019 will see the launch of a refreshed and updated version of the app, enhancing the look and feel for users as well as the breadth of services on offer.

Risk management philosophy

Risk management should be a continuous and evolving process that runs throughout the strategies and service/product delivery of BHSF Group. Learning lessons from past activities, both beneficial and adverse, will help to inform the current and future decisions by reducing threats and optimising the uptake of opportunities.

Enterprise risk management framework

The Group's enterprise risk management framework (ERMF) has been evolved to ensure a robust method of monitoring and managing the risks of the Group and all its subsidiaries. The Group has exposure to various categories of risk, many of which are recognised through the application and adherence to Solvency II regulation. In addition, the Group utilises a Risk Universe to define the specific risk categories to which it is exposed, further to those defined by Solvency II.

The evolved ERMF utilises the principles of enterprise risk management (ERM) and will further embed risk management across the Group, with a key aim being a fully risk-aware culture. Further levels of governance work in unison with the risk assessment programme and Own Risk and Solvency Assessment (ORSA) process, will help to leverage risk management to provide a competitive advantage.

Risk exposure is monitored by the Head of Risk, whose responsibility it is to ensure the maintenance of an adequate risk exposure and risk profile, in line with the Group's business strategy and objectives, whilst also maintaining an adequate solvency position. This is largely achieved through the ORSA process, providing a quantitative and qualitative assessment of risks on both a current and forward looking basis. The full ORSA process is undertaken annually. Further to the ORSA process, the Group utilises a rolling risk assessment programme, feeding into quarterly risk reporting to the Risk and Compliance Committee, along with an overview of the current risk profile of the Group.

The Risk and Compliance Committee is a Board approved committee, providing advice to the Board on the risk management strategy, risk policies, the ORSA, and the current risk profile of the business. The underlying objective of risk management is to aid in the decision-making process, providing the Group Board with the information to help steer the business.

Principal risks

Under the Solvency II regulatory regime, the Group has Board-approved policies for all principal risk categories. These are:

- Health Underwriting Risk: The Health Cash Plan (HCP) books of business involve actively taking underwriting risk within a controlled environment. Premiums are based upon analysis of historical claims trends, with close monitoring of current claims ratios, with corrective action taken where necessary. HCP claims are generally low in value and short term in nature.
- Market risk: The Group actively manages market risk through the outsourcing of management of the investment portfolio to an investment manager, UBS. Parameters are set by the Group, through which the investment manager must operate, with an investment policy that maintains a balanced portfolio of assets. The investments held by the Group and the investment strategy are regularly reviewed through monthly investment reports and through active discussion and scrutiny at the Investment Committee and Group Board.
- Credit risk: Credit risk, or counterparty default risk, is the risk of default from one of our counter-parties, including reinsurers, investment manager, banks, insurance intermediaries, trade debtors, and other non-insurance counterparties. The risk is managed through the use of a credit control function and defined credit terms, as well as restrictions on the banks with which funds can be placed.
- Operational risk: The risks arising from failed internal processes, systems, people, and external events. The Group has multiple business support functions designed to manage different facets of operational risk such as HR, IT, Facilities Management, and Finance. Furthermore, the Group has a defined and tested business continuity plan (BCP) and Group insurances to mitigate against significant operational business disruption.

In addition to the Solvency II defined risk categories, the Group recognises the following:

- Conduct risk
- Liquidity risk
- Pension risk
- Regulatory risk
- Strategic risk
- Reputational risk

Board oversight of the Enterprise Risk Management Framework

The Risk and Compliance Committee maintains a standing agenda item to review both the appropriateness and effectiveness of the ERMF, along with its supporting elements and outputs. The suite of reporting provided on a quarterly basis, along with the ORSA process, are reviewed and scrutinised by the Committee, ensuring a full understanding of the Group's risk profile at a point in time.

The Group continues to work on evolving the ERMF and fully embedding risk management into every facet of the organisation, striving for a fully risk-aware culture.

Performance

The performance of the Group's business is set out in the financial statements and the Board considers 2018's performance to have been disappointing and measures have already been put in place to improve performance in 2019.

Revenues increased in 2018, driven by growing sales in the occupational health division, improved sales of our employee-benefits service such as BHSF Connect, the full-year impact of last year's acquisition of the Benenden book of health cash plans, and further growth in the health cash plan division thanks to some excellent sales results in recent years. Unfortunately, costs have also increased, in particular the costs of claims payments to insurance policyholders was significantly higher than in previous years. Overhead costs have also increased, driven by ongoing implementation costs for new regulations, as well as substantial investment in our IT infrastructure and our people. We expect significant expenditure in these areas to continue into 2019.

These increasing costs resulted in an operating loss in the insurance business. The occupational health division saw improved sales performance compared to the previous year, but remains loss-making overall. New systems and transformation of the business and its processes are expected in 2019 in order to improve performance in subsequent years.

The results for the year are further reduced by a weak investment result thanks to depressed market conditions at the year end. Furthermore, issues such as Guaranteed Minimum Pension (GMP) equalisation, affecting most pension schemes in the country, resulted in a loss on the pension scheme.

Regulatory solvency ratios remain above tolerance for both the insurer, BHSF Limited, and the Group as a whole. Certain key performance indicators are regularly considered by the Board to monitor the performance of the Group.

These include:

KPI	2018	2017
Total revenue	£48.8m	£44.3m
Total revenue growth rate	10.2%	8.6%
Insurance claims ratio*	73.7%	69.4%
Insurance expense ratio*	29.5%	29.9%
Insurance underwriting result	£(1.29)m	£0.26m
Increase in polices underwritten	7%	14%
Solvency:		
BHSF Limited	173%	189%
BHSF Group	193%	216%
Non-insurance business margin	£(2.8)m	£(1.4)m
Investment income & net investment returns	£(0.5)m	£2.2m

* calculated as percentages of earned premiums.

Further information on the Group's performance in 2018 and its future prospects is set out in the Group Chief Executive's Review on pages 6 to 7 which forms part of this Strategic Report.

This report was approved by the board on 8 May 2019 and signed on its behalf by

Ian R Galer
Group Chief Executive

Directors' report

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 December 2018.

Independent non-executive directors

Dr Andrew Milner LL.D, DMS, DipM, FIMgt, MCIM, Chairman
Jill Bonehill
Dr Carol Coombes OBE, D Univ
Gary Cowdrill FCA
Sara Fowler BA (Hons), MAE, FCA (appointed 1 July 2018)
John Hardy B.Com
Neil Mackay BSc, FCA (retired 14 January 2018)
Christopher Wiggin BA (Hons)

Executive directors

Ian Galer BA (Hons), FCA, Group Chief Executive
Geoff Guerin MBA, BA (Hons), C.Dir, FIoD, ACII Chief Operations Officer
Brian Hall FInstSMM, C.Dir, FIoD, Chief Commercial Officer
Adrian Hope MA, BA (Hons), MBCS, Chief Information Officer
Dr Philip McCrea Mb, Bch, BAO, MD, MRCP (UK), FRCP (Glasg), MFOM, MFOM (RCPI) Chief Medical Officer (resigned 1 April 2018)
David Nuttall MBA, Chartered MCIPD, Chief People Officer
Tom Ross MMath (Hons), ACA, Chief Finance Officer
Charlotte Taylor MA, BA (Hons), ACIS, LLDip, Group Company Secretary (resigned 1 April 2018)

Honorary officers

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

Committees

There are six board committees:

Audit committee

Gary Cowdrill (Chairman)
Sara Fowler
John Hardy
Neil Mackay (retired 14 January 2018)

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

Investment committee

John Hardy (Chairman)
Andrew Milner

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

Remuneration and nomination committee

Neil Mackay (Chairman, retired 14 January 2018)
Chris Wiggin (Chairman - current)
Jill Bonehill
Carol Coombes
Gary Cowdrill
Andrew Milner

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

Risk and compliance committee

John Hardy (Chairman)
Jill Bonehill
Gary Cowdrill
Neil Mackay (retired 14 January 2018)

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

Transformation board

Sara Fowler (Chairman)
Jill Bonehill
Ian Galer
Chris Wiggin

This committee develops, promotes and coordinates transformation activity across the Group with input from the Executive Transformation Team.

Executive committee

Ian Galer (Chairman)
Diane Burdett
Geoff Guerin
Brian Hall
Adrian Hope
David Nuttall
Tom Ross
Shelley Rowley
Charlotte Taylor
Philip McCrea

This Committee has responsibility for the day to day operations of the BHSF Group and the implementation of the strategy approved by the boards.

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

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with the UK Generally Accepted Accounting Practice (FRS 102 and FRS 103).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Group and of the surplus and deficit of the Group for that period. In preparing these financial statements, the directors are required to:

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

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

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

Directors' indemnities

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

Political and charitable donations

The Group donated £22,238 (2017: £51,952) by gift aid during the year. The Group made no political donations during the year (2017: nil).

Post balance sheet events

Post year end a planning appeal relating to 8.26 hectares of one of the investment properties, Tyn-y-Coed was successful. This would increase the year end valuation to £3,225,000 from £1,275,000. The valuation is based on the minimum purchase price (in accordance with the option agreement with a third party) less costs and a deduction for risks and delays.

Statement regarding information given to the auditor

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

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

Advisers

- Principal bankers - The Royal Bank of Scotland plc
- Principal solicitors - Weightmans LLP, Integra Legal Limited and Shakespeare Martineau LLP
- Investment managers - UBS AG, London Branch
- Property advisors - Fisher German LLP
- Pension fund actuary and actuarial

advisor to the Group - Quattro Pensions

- Pension advisors - Capita Employee Benefits (Consulting) Limited
- Solvency II actuarial advisors – OAC
- Solvency II assurance – Barnett Waddingham
- PR advisors – Elissa Dennis Marketing & PR Consulting
- Corporate finance advisors – Orbis Partners Limited
- Outsourced internal audit service provider - RSM Risk Assurance Services LLP
- Corporate tax advisors - PwC

Staff

The Group places great importance on the recruitment, training and development of its people, recognising the vital contribution made by colleagues at all levels of the business. This has culminated in the achievement of the Investor in People award in 2002, for which we have been re-accredited triennially. In 2004 we also achieved ISO 9001:2000 (Quality Management System) accreditation, and we were re-certified in 2017 under ISO 9001:2015 for the next three years. In October 2018 we achieved our ISO 27001:2013 (Information Security Management System) accreditation, to maintain this we have surveillance audits annually and re-certification triennially.

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

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

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

Appreciation

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

This report was approved by the board on 8 May 2019 and signed on its behalf by;

Ian R Galer
Group Chief Executive

Directors' profiles

Andrew Milner
Chairman

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

Ian Galer
Chief Executive Officer

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

Jill Bonehill
Non-executive Director

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

Carol Coombes OBE, D Univ
Non-executive Director

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

Brian Hall
Chief Commercial Officer

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

Sara Fowler
Non-executive Director

Sara Fowler spent most of her career in financial services formerly as Senior Partner for EY Midlands and as Chair of the CBI West Midlands. She is currently Chair of St Basils. She joined the board of BHSF Group Limited in July 2018.

Adrian Hope
Chief Information Officer

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

David Nuttall
Chief People Officer

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

Christopher Wiggin
Non-executive Director

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

Gary Cowdrill
Non-executive Director

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

Geoff Guerin
Chief Operations Officer

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

Tom Ross
Chief Finance Officer

Tom Ross joined BHSF in 2014 as financial accountant and was appointed Head of Finance in March 2015. He joined the board of BHSF Group Limited in November 2017 and is Chief Finance Officer.

John Hardy
Non-executive Director

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

Officers

President
The Right Worshipful The Lord Mayor of Birmingham,
Councillor Yvonne Mosquito

Vice President
Dr Paul Kanas BM, BS, MRCP, FFOM

Life Members
Stephen G Hall FIPPM
Albert Harrison (d. 7 March 2019)
Dr Paul Kanas BM, BS, MRCP, FFOM
David J Read JP, FFA, FICM, FIAB

Philip McCrea
Chief Medical Officer

Charlotte Taylor
Company Secretary

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

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

Senior managers

Richard Bisiker MSc.HRD. FILM. MIoD. Head of Learning and Development

Paul Brady
Head of Commercial Development

Luke Brown BA (Hons), MBA
Head of Occupational Health and Employee Benefits Operations

Diane Burdett BS (Hons) Psych
Director of Marketing

Jonathan Byfield
Head of Business Development

Louise Eden BA, Dip PFS, MICA
Head of Compliance

Richard Evanson BSc
Head of IT

Adam Lea
Head of Risk

Veronica Leigh-Hanson
Head of HR

Steve Munday CIRM
Head of Technical and Underwriting

Dr David Poots FFOM
Senior Medical Officer

Shelley Rowley BSc, MSc
Director of Strategic Development

Chris Snookes BA (Hons), MSc
Head of Commercial Partnerships

Melanie Tavener BA(Hons), MSc
Chartered MCIPD Head of HR

Mike Tresham BCom, CMgr, FCMI, Head of Insurance Operations

CSR mission statement

We have a strong commitment to being a responsible organisation, not just because it's good for our business and our community but we know it is the right thing to do.

So whether we're reaching out to our employees, customers, partners, communities or the wider society, we do so with a clear understanding of our mission.

To make a significant contribution and have a positive impact on their health and wellbeing.

A responsibility to all

Our approach to Corporate Social Responsibility covers four distinct areas: Charity, community, environment and employee.

Charity

We will promote and actively work together with the charities we support in order to further their causes, good work and initiatives.

Community

By engaging with the local communities in which we work in, supporting them and putting something back, we can make a positive difference to their health and wellbeing.

Environment

We seek to make a positive impact on our environment and the planet through initiatives and projects designed to reduce any damaging effects of our business.

Employees

By investing in our employees, recognising their different needs and requirements as well as promoting a diverse, inclusive culture, they will feel valued by our organisation and proud to work for it.

We support charities through a variety of methods including company-wide money raising activities, cash matching staff fund raising and by also donating our time.

Who we support

We supported a number of charities throughout 2018 including;

The Ladywood Project

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

During 2018 we supported the project by donating funds for a seaside trip, colleagues donated shoeboxes filled with gifts for the project to hand out to less fortunate children and we also got involved with Christmas present wrapping.

Some of our Directors also got involved in the fund raising, colleagues at Gamgee House were able to 'buy a sponge' soaked in water to throw at the Directors in the gallows.

St Basils

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

Each year BHSF takes part in the St Basils Walk and in 2018 colleagues took part in the Black Mountains Challenge – a 23.5 mile walk in Hay-On-Wye – raising over £5000 in sponsorships.

Colleagues also opt to take part in the St Basils Sleep Out which takes place each November and asks participants to raise money by 'sleeping rough' for one night in the grounds of Birmingham's St Philip's Cathedral.

Marie Curie

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

We sponsor the Marie Curie West Midlands Brain Game and, this year, some of our colleagues went along to the event to help guests and wait on tables.

Alzheimer's Society

The Alzheimer's Society's vision is a world without dementia. Dementia is one of the biggest health and care challenges we face. By 2021, over a million people will be living with the condition. All of the funds raised aid the society in its research activities, and to support those with dementia, along with their friends and family.

Colleagues raised over £200 for the Alzheimer's society through sponsored dress down days.

Acorns Children's Hospice

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

We raised donations through a variety of activities including book sales, quizzes and sponsored dressed downs, there was even a sponsored silence which raised over £1,200 thanks to the determination of a talkative colleague.

We also try to help out colleagues who are organising their own events or activities for a charity special to them.

In June, Dr Phil McCrea organised 'Come Dine with Phil' where he cooked a meal for attendees in Gamgee House with the help of one of our kitchen staff. He raised an impressive £1000 for Mary's Meals.

Other charities we have supported include;

- *Little Hearts Matter*
- *Macmillan*
- *Guide Dogs*
- *Prostate Cancer UK*
- *Save the Children*
- *Children in Need*
- *Sports Relief*
- *SMA Trust*
- *British Heart Foundation*
- *Birmingham & Solihull's Women's Aid*
- *Crohn's & Colitis*

And it's not just money that is donated to these charities, over the year colleagues collectively donated over 750 hours of their time to support these causes.

Independent auditor's report

Opinion

We have audited the financial statements of BHSF Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise the Group Income Statement, the Group Statement of Total Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statements of Changes in Equity, the Group Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice) and Financial Reporting Standard 103 Insurance Contracts.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's deficit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

BDO LLP

John Perry (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom

Date 9 May 2019

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

Group income statement

For the year ended 31 December 2018
Technical and Non-technical Accounts – General Business

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
TECHNICAL ACCOUNT					
PREMIUMS					
Gross premiums written	3	**40,126**		37,185	
Outward reinsurance premiums	5	**(434)**		(367)	
		39,692		36,818	
Change in the provision for unearned premiums		**35**		338	
Earned premiums net of reinsurance			**39,727**		37,156
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT			**56**		52
CLAIMS					
Gross amount		**(29,405)**		(26,236)	
Reinsurer's share	5	**325**		177	
		(29,080)		(26,059)	
Change in the provision for outstanding claims:					
Gross amount		**(235)**		238	
Reinsurer's share	5	**30**		34	
		(205)		272	
Claims incurred net of reinsurance			**(29,285)**		(25,787)
			10,498		11,421
NET OPERATING EXPENSES	6		**(11,729)**		(11,111)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			**(1,231)**		310

	Note	2018 £'000	2017 £'000
NON-TECHNICAL ACCOUNT			
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		**(1,231)**	310
Investment income	9	**827**	897
Unrealised (losses)/gains on investments		**(1,247)**	1,410
Allocated investment return transferred to the technical account		**(56)**	(52)
Investment expenses and charges		**(108)**	(109)
Other income	10	**8,664**	7,154
Other charges	11	**(11,488)**	(8,512)
Net interest cost on pension scheme liability	14	**(23)**	(53)
Past service cost	14	**(476)**	-
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION	12	**(5,138)**	1,045
Tax credit/(charge) on (deficit)/surplus on ordinary activities	13	**654**	(140)
(DEFICIT)/SURPLUS FOR THE FINANCIAL YEAR		**(4,484)**	905

All the above amounts relate to continuing operations.
The notes on pages 28 – 49 form part of these financial statements.

Group statement of total comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
(Deficit)/Surplus for the financial year		**(4,484)**	905
Actuarial gains net of deferred tax	14	**67**	908
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		**(4,417)**	1,813

All the above amounts relate to continuing operations.
The notes on pages 28 – 49 form part of these financial statements.

Statements of financial position

For the year ended 31 December 2018

		Group				Company (number 4767689)	
		2018	**2018**	2017	2017	**2018**	2017
ASSETS	Note	**£'000**	**£'000**	£'000	£'000	**£'000**	£'000
INTANGIBLE ASSETS							
Goodwill	15	**451**		800		**-**	-
Other intangibles	15	**246**		300		**-**	-
			697		1,100	**-**	-
INVESTMENTS							
Land and buildings	16	**2,585**		2,447		**-**	-
Investment in subsidiaries	17	**-**		-		**1,540**	2,640
Other financial investments	18	**20,785**		23,599		**-**	-
			23,370		26,046	**1,540**	2,640
REINSURER'S SHARE OF TECHNICAL PROVISIONS	19		**222**		192	**-**	-
DEBTORS							
Debtors arising out of direct insurance operations	20	**2,215**		1,881		**-**	-
Amounts due from group undertakings		**-**		-		**1,282**	-
Other debtors	21	**3,625**		1,810		**-**	-
			5,840		3,691	**1,282**	-
OTHER ASSETS							
Tangible fixed assets	22	**610**		524		**-**	-
Stock		**13**		5		**-**	-
Cash at bank and in hand		**3,552**		6,531		**268**	357
			4,175		7,060	**268**	357
PREPAYMENTS AND ACCRUED INCOME			**442**		364	**-**	-
TOTAL ASSETS			**34,746**		38,453	**3,090**	2,997

		Group				Company (number 4767689)	
		2018	2018	2017	2017	2018	2017
LIABILITIES	**Note**	**£'000**	**£'000**	£'000	£'000	**£'000**	£'000
ACCUMULATED FUND			**26,572**		30,989	**2,851**	2,658
TECHNICAL PROVISIONS	23						
Provision for unearned premiums		**465**		430		**-**	-
Provision for claims		**1,960**		1,725		**-**	-
			2,425		2,155	**-**	-
PROVISION FOR OTHER RISKS - PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS							
Pension scheme liability	14	**1,256**		881		**-**	-
Other provisions	24	**285**		272		**-**	-
			1,541		1,153	**-**	-
CREDITORS							
Amounts owed to credit institutions	25	**-**		319		**-**	319
Amounts owed to group undertakings		**-**		-		**208**	-
Other creditors including taxation and social security	26	**2,838**		2,181		**14**	-
			2,838		2,500	**222**	319
ACCRUALS AND DEFERRED INCOME			**1,370**		1,656	**17**	20
TOTAL LIABILITIES			**34,746**		38,453	**3,090**	2,997
PROFIT OF BHSF GROUP LIMITED SINGLE ENTITY						**193**	1,036

The notes on pages 28 – 49 form part of these financial statements. No Company total comprehensive income statement account has been included in these financial statements as permitted by section 408(3) of the Companies Act 2006.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 8 May 2019.

Ian R Galer
Group Chief Executive

Statements of changes in equity

For the year ended 31 December 2018

	Group Accumulated Fund £'000	Company Accumulated Fund £'000
Balance at 1 January 2017	**29,176**	**1,622**
Changes in equity for the year ending 31 December 2017		
Surplus for the financial year	905	1,036
Other comprehensive income for the financial year	908	-
Total comprehensive income for the financial year	1,813	1,036
Balance at 31 December 2017	**30,989**	**2,658**
Changes in equity for the year ending 31 December 2018		
(Deficit)/surplus for the financial year	(4,484)	193
Other comprehensive income for the financial year	67	-
Total comprehensive (expenditure)/income for the financial year	(4,417)	193
Balance at 31 December 2018	**26,572**	**2,851**

The notes on pages 28 – 49 form part of these financial statements.

Group statement of cash flows

For the year ended 31 December 2018

	Note	2018	2017
		£'000	£'000
Cash Flows from Operating Activities			
(Deficit)/Surplus for the financial year before tax		**(5,138)**	1,045
Adjustments for:			
Realised gains on sale of investments	9	**(91)**	(164)
Depreciation and amortisation	12	**627**	592
Unrealised investment losses/(gains)		**1,335**	(1,050)
Revaluation gains on land and buildings		**(88)**	(360)
Past service cost		**476**	-
Other non-cash items of comprehensive income		**344**	53
Increase in insurance debtors		**(364)**	(64)
Increase in trade and other debtors excluding tax		**(1,451)**	(502)
(Increase)/Decrease in stock		**(8)**	2
Increase/(Decrease) in insurance creditors		**270**	(118)
Increase in trade and other creditors excluding tax and pension scheme		**466**	496
Increase/(Decrease) in other provisions		**24**	(48)
Defined benefit pension contributions	14	**(45)**	-
Investment portfolio purchases		**(6,776)**	(6,019)
Investment portfolio sales		**8,109**	5,711
Corporation tax paid		**(56)**	(158)
Net Outflow from Operating Activities		**(2,366)**	(584)
Cash Flows from Investing Activities			
Purchase of tangible fixed assets	22	**(259)**	(323)
Purchase of intangible assets	15	**(60)**	(63)
Purchase of investment properties	16	**(50)**	-
Payment of deferred consideration on past acquisitions		**(175)**	(300)
Net Outflow from Investing Activities		**(544)**	(686)
Cash Flows from Financing Activities			
Movement on revolving credit facility net of arrangement fees		**(302)**	(200)
Net Outflow from Financing Activities		**(302)**	(200)
Net Decrease in Cash and Cash Equivalents		**(3,212)**	(1,470)
Cash and cash equivalents at 1 January		**7,256**	8,722
Effect of exchange rate fluctuations on cash balances		**3**	4
Cash and Cash Equivalents at 31 December	29	**4,047**	7,256

The notes on pages 28 – 49 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2018

1. Basis of preparation

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

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

The financial statements cover the year ended 31 December 2018. The comparative figures cover the year ended 31 December 2017.

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

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

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

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

1A. Accounting policies

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

a) Basis of consolidation

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

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

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

b) Premiums

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

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

c) Reinsurance

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

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

d) Claims

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

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

Provision is made for the estimated cost of claims incurred up to the statement of financial position date. The provision is based on claims settled after the statement of financial position date together with an estimate of claims incurred by the statement of financial position date but not settled or notified based on statistical methods. Included within the provision is an estimate of the claims handling costs that will be incurred in settling outstanding claims.

e) Acquisition costs

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

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

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

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

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

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

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

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

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

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

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

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

k) Intangible assets
Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, by equal annual instalments, to allocate the depreciable amount of the assets to their residual values over their expected useful lives.

The rates applicable during the year were:

Computer software	20-50%

l) Tangible fixed assets
Tangible fixed assets are stated at depreciated historical cost.

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

The rates generally applicable during the year were:

Furniture and equipment	10%
Computer equipment	20%
Laptops	33%
Medical equipment	15%
Assets under construction	none

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m) Land and buildings

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

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

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

n) Acquisitions

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

o) Investments

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

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

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

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

p) Other financial instruments

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

q) Pension schemes

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

Defined benefit scheme:

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

Defined contribution scheme:

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

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

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

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

1B. Critical judgements in the application of accounting policies

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

a) Financial instrument classifications (Note 18)
The financial statements include £20,270k (2017: £22,874k) in respect of financial instruments which are measured at fair value through profit and loss. This is based on the judgement that the default amortised cost measurement basis under FRS 102 for the £8,45k (2017: £9,302k) of investments in debt instruments, including corporate and government bonds, does not provide as relevant information to the users of these financial statements as fair value does because these investments are managed and monitored by the Group on the basis of their market value.

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

1C. Key sources of estimation uncertainty

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

a) Technical provisions – claims provision (Note 23)
The financial statements include £1,960k (2017: £1,725k) in respect of technical provision liabilities for claims. These provide for the estimated costs of claims incurred up to the statement of financial position date and outstanding at that date.

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

Technical provisions for cancer cover remain based on statistical rates of cancer incidence published by the Office for National Statistics, but now incorporate analysis of policyholders and proportionate likelihood of diagnosis, against type of cover and therefore settlement value in event of a claim. Less emphasis is now given to the length of time a policyholder has held a policy.

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

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

b) Defined benefit pension scheme liability (Note 14)
The financial statements include a net defined benefit pension scheme liability of £1,256k (2017: £881k), comprising assets of £12,015k (2017: £12,924k) and liabilities of £13,271k (2017: £13,805k). These liabilities represent the costs expected to be incurred in making pension payments to current or past employees who are members of the scheme.

The valuation of the pension scheme liability is determined on an actuarial basis using the projected unit method and are discounted at a rate using the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. Assumptions are also made about the mortality of the beneficiaries of the pension scheme, and

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For the year ended 31 December 2018

future rates of inflation. The assumptions underlying this calculation are discussed in more detail in Note 14.

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

c) Investments in subsidiaries and goodwill and other intangibles (Notes 15 and 17)
Investments in subsidiaries within the Company are measured at cost less accumulated impairment. Goodwill balances within the Group represent the excess over net asset value paid for the acquisition of subsidiary companies. Other intangible assets represent the value of customer contracts and relationships within acquired companies. Goodwill and other intangibles are measured at cost less accumulated amortisation and accumulated impairment.

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

d) Investment property valuation (Note 16)
The financial statements include revaluation gains of £88k on investment properties. The valuation uplifts are based on reports provided by valuation experts, but which nevertheless are a source of estimation uncertainty due to the nature of property valuations. Key assumptions underlying the valuations include:

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

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

In particular:

- An increase or decrease in prevailing market conditions equivalent to 10% of property prices could increase or decrease the recognised values by £259k.
- Post year end a planning appeal relating to 8.26 hectares of one of the investment properties, Tyn-y-Coed was successful. This would increase the year end valuation to £3,225,000 from £1,275,000. For further details see note 32.

e) Brexit
The Group's activities have limited exposure to EU member states outside of the UK as all sales of the Company's products are in the UK. Nevertheless, the UK's withdrawal from the EU has potential impacts beyond simply effects on cross-border trading, and the impact it could have indirectly on the Company by affecting its core UK customer base (comprised largely of UK corporates) is currently unknowable.

Further, the impact on investment values as a result of fluctuations in the value of sterling, the currency in which all investments are denominated is also uncertain. Note 18 provides some insight into the sensitivity of the Company's financial instruments to various financial risks, currency risk among them.
In the absence of clear information to the contrary, estimates in the accounts have assumed business is able to continue as normal following the withdrawal date.

2. Insurance Risk Management

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

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

2A. Impact on these financial statements

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

- Note 1A (b) describes the accounting for the premium income arising from insurance contracts which appears in the Income Statement.
- Note 1A (d) describes the accounting for claims costs that appear in the Income Statement. Claims are discussed in further detail in section 2B below.
- Note 1A (c) describes the accounting for reinsurance which appears in the Income Statement and notes 5 and 19.
- Note 1C (a) describes the estimation techniques used in the calculation of the technical provisions balances included in the statement of financial position and disclosed in more detail in note 23.
- Note 3 discloses the amount of insurance premium tax paid on premiums arising from insurance contracts.

- Note 6 discloses costs incurred in acquiring insurance business.
- Note 12 discloses the commissions payable in respect of insurance contracts.
- Note 20 discloses the amounts receivable from insurance policyholders and reinsurers at the statement of financial position date.
- Note 23 discloses the movements in insurance technical provisions during 2018.

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

2B. Risks arising from insurance contracts

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

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

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

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

Additionally, insurance risk is mitigated in part by the terms of the health cash plan policies. These state that claims must generally be made within three months of the date the claim event occurred. This reduces the volatility in claims and reduces the risk of sudden large historic claims that could significantly harm the Group's solvency. The value of claims for which there is uncertainty about the timing and amount extending beyond the next 12 months is £26k (2017: £15k).

2C. Sensitivity analysis

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

1. A 5% increase/decrease in claims;
2. A 5% increase/decrease in operating expenses; and
3. A one-off catastrophe giving rise to claims of £1,158k (2017: £1,049k).

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

	Surplus/(Deficit) before tax		Accumulated fund	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Before sensitivities	**(5,138)**	1,045	**26,572**	30,989
After applying claims ratio sensitivity				
- 5% increase in claims	**(6,602)**	(244)	**25,386**	29,958
- 5% decrease in claims	**(3,673)**	2,334	**27,758**	32,020
After applying expense ratio sensitivity				
- 5% increase in operating expenses	**(5,724)**	490	**26,097**	30,545
- 5% decrease in operating expenses	**(4,551)**	1,600	**27,047**	31,433
After applying one-off claims shock sensitivity				
- £1,158k additional claims (2017: £1,049k)	**(6,296)**	(4)	**25,634**	30,150

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For the year ended 31 December 2018

3. Gross premiums written

	2018	2017
	£'000	£'000
Total insurance premiums	44,837	41,275
Less insurance premium tax	(4,711)	(4,090)
Gross premiums written	40,126	37,185

4. Segmental revenue analysis

The Group's total revenue is generated in the following business segments:

	2018	2017
	£'000	£'000
Gross written premiums:		
Underwritten insurance	40,126	37,185
Other income:		
Insurance broking	434	367
Employee benefits and employer-support services	1,784	846
Occupational health	6,446	5,941
Total revenue	48,790	44,339

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

Occupational health revenue is divided into the following geographic segments:

	2018	2017
	£'000	£'000
United Kingdom	5,893	5,607
Republic of Ireland	553	334
Total occupational health revenue	6,446	5,941

5. Gain or loss on reinsurance relationships

	2018	2017
	£'000	£'000
Premiums ceded to reinsurer	434	367
Claims recovered from reinsurer	(325)	(177)
Technical provision movement attributed to reinsurer	(30)	(34)
Loss on buying reinsurance	79	156

6. Net operating expenses

	2018	2017
	£'000	£'000
Business acquisition costs	4,827	4,291
Administration expenses	6,902	6,820
	11,729	11,111

7. Employee costs and numbers

7A. Employee costs:

	2018	2017
	£'000	£'000
Wages and salaries	11,005	9,661
Social security costs	1,125	1,003
Pension costs	1,197	894
	13,327	11,558

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

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

7B. The average number of employees during the year:

	2018 Number	2017 Number
Sales and marketing	80	76
Registration, claims and helpdesk	46	38
Management and administration	118	115
Occupational health practitioners	61	42
	305	271

8. Directors' emoluments and benefits

	2018 £'000	2017 £'000
Directors' emoluments including benefits in kind	1,320	1,226
Contributions to a defined contribution scheme	185	172
	1,505	1,398
Highest paid Director		
Remuneration	242	237

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

	2018 Number	2017 Number
Defined contribution scheme	8	8

The highest paid director has no accrued pension or lump sum for the year (2017: nil).

9. Investment income

	2018 £'000	2017 £'000
Income from land and buildings	4	1
Income from other investments	732	732
Profit on the realisation of investments	91	164
	827	897

10. Other income

	2018 £'000	2017 £'000
Insurance broking	434	367
Employee benefits and employer-support services	1,784	846
Occupational health	6,446	5,941
Total revenue	8,664	7,154

11. Other charges

	2018 £'000	2017 £'000
Cost of sales	5,008	4,193
Administration expenses	6,002	3,910
Goodwill and other intangible assets amortisation	456	357
	11,466	8,460
Charitable donations	22	52
	11,488	8,512

Notes to the financial statements

For the year ended 31 December 2018

12. Surplus on ordinary activities before taxation

	2018 £'000	2017 £'000
The (deficit)/surplus on ordinary activities before taxation is arrived at after charging the following:		
Depreciation	**171**	186
Amortisation of goodwill	**349**	304
Amortisation of other intangibles	**107**	102
Operating leases – buildings	**272**	141
Operating leases – other	**271**	226
Commissions payable	**1,963**	1,391
Auditor's fees:		
Fees payable in respect of the audit of the Company's accounts	**13**	13
Other services provided by the Company's auditor:		
Audit fees for the Company's subsidiaries pursuant to regulation	**79**	92
Fees for other services pursuant to regulation	**-**	19
Services relating to liquidation of dormant subsidiaries	**-**	2

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

13. Taxation

13A. Analysis of charge in year:

	2018 £'000	2017 £'000
Corporation tax at 19% (2017: 19.25%)		
Current tax charge	**(75)**	93
Adjustments in respect of prior periods included in current tax charge	**192**	(2)
Deferred tax (credit)/charge	**(784)**	49
Adjustments in respect of prior periods in deferred tax charge	**(5)**	-
Effects of changes in rates	**18**	-
Taxation (credit)/charge	**(654)**	140

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

The tax assessed for the year is more (2017: less) than would be expected by multiplying the surplus on ordinary activities by the standard rate of corporation tax in the UK of 19.0% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
(Deficit)/surplus on ordinary activities before taxation	**(5,138)**	1,045
(Deficit)/surplus on ordinary activities before taxation multiplied by the standard rate of corporation tax at 19% (2017: 19.25%)	**(976)**	201
Effects of:		
Gains and losses not subject to corporation tax	**(26)**	248
Expenses not deductible for tax purposes	**329**	-
Income not subject to corporation tax	**(239)**	(384)
Goodwill deduction not subject to corporation tax	**20**	77
Impairment charge not subject to corporation tax	**-**	-
Adjustments in respect of prior periods	**219**	(2)
Tax rate changes	**18**	-
Other differences	**1**	-
Total tax (credit)/charge	**(654)**	140

The aggregate deferred tax relating to items recognised in other comprehensive income is a (credit) of £14k (2017: £176k).

13C. Deferred tax

The Group had deferred tax assets as follows:

	2018 £'000	2017 £'000
Fixed asset timing differences	3	2
Short-term timing differences - trading	698	-
Deferred tax asset on pension scheme liability	213	150
	914	152

Deferred tax assets are carried forward within other debtors.

The movement on the deferred tax asset is as follows:

	2018 £'000	2017 £'000
As at 1 January	152	334
Movement through total comprehensive income	762	(182)
As at 31 December	914	152

The extent to which the majority of the deferred tax assets will reverse over the next 12 months is uncertain because most of their value depends on the value of the pension scheme liabilities which is sensitive to prevailing market and economic forces. Of the remaining assets, it is estimated that £3k (2017: £2k) will reverse over the next 12 months.

The Group has deferred tax liabilities as follows:

	2018 £'000	2017 £'000
Fixed asset timing differences	57	52
Short-term timing differences - trading	-	30
Investment property revaluations	189	175
	246	257

The deferred tax liability is carried forward within other provisions.

The movement on the deferred tax liability is as follows:

	2018 £'000	2017 £'000
As at 1 January	257	214
Movement through total comprehensive income	(11)	43
As at 31 December	246	257

Over the next 12 months it is expected that £11k (2017: £25k) of deferred tax liabilities in respect of fixed asset timing differences will reverse as the accounting value and tax value of fixed assets converge. Reversals of deferred tax liabilities in respect of property revaluations is uncertain due to its dependency on prevailing market conditions.

13D. Factors that may affect future tax charges

The applicable UK corporation tax rate is 19.0% for the company (2017: 19.25%).The Finance Bill 2016, which was substantively enacted on 6 September 2016, included legislation further reducing the UK corporate tax rate to 17% from 1 April 2020. This reduction has been reflected in the deferred tax provided in the company where applicable.

14. Pension commitments

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

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14A. Pension scheme impact on financial statements

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

	2018	2017
	£'000	£'000
Present value of scheme liabilities	(13,271)	(13,805)
Fair value of scheme assets	12,015	12,924
Deficit in the scheme	(1,256)	(881)

The amounts recognised in the income statement are as follows:

	2018	2017
	£'000	£'000
Interest on net liability	(23)	(53)
Past service cost	(476)	-
Total charge	(499)	(53)

The past service cost reflects provisions included for GMP equalisation and salary linking.

The amounts recognised in other comprehensive income are as follows:

	2018	2017
	£'000	£'000
Actuarial gain/(loss)on scheme liabilities	822	394
Actuarial gain on scheme assets	(741)	690
Deferred tax (charge)/credit on actuarial adjustments	(14)	(176)
Total net actuarial gain/(loss)	67	908

There are no commitments in respect of the defined contribution scheme at the year-end (2017: nil).

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

14B. Pension scheme assets and liabilities

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

	2018	2017
	£'000	£'000
Opening scheme liabilities	13,805	14,467
Interest cost	353	397
Past service cost	476	-
Actuarial (loss)/gain	(822)	(394)
Benefits paid	(541)	(664)
Other movements	-	(1)
Closing scheme liabilities	13,271	13,805

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

	2018	2017
	£'000	£'000
Opening fair value of scheme assets	12,924	12,554
Interest income on scheme assets	328	344
Actuarial loss	(741)	690
Contributions by employer	45	-
Benefits paid	(541)	(664)
Closing fair value of scheme assets	12,015	12,924

The actual return on plan assets was £432k (2017: £1,012k). Under FRS 102, this return is not recognised. Instead, interest income on scheme assets is calculated using the same discount rate as is applied to liabilities. However the scheme actuary will take the actual return on assets into account in establishing the closing fair value.

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

	2018	2017
Equities	56%	57%
Bonds	39%	38%
Annuities	1%	1%
Cash	4%	4%

The most recently-completed triennial actuarial valuation of the defined benefit scheme was performed by an independent actuary at 31 March 2017. The next triennial valuation will consider the scheme's value at 31 March 2020 and will determine whether further contributions by the Group are required. The contributions above relate to inflation payments for pensions in payment. In arriving at the pension liabilities as at 31 December 2017, the scheme actuary has updated the liabilities given in the last triennial valuation by adjusting for payments made to and from the scheme and updating the actuarial assumptions.

14C. Actuarial assumptions

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

	2018	2017
Discount rate	**2.90%**	2.60%
RPI inflation	**3.40%**	3.40%
CPI inflation	**2.40%**	2.40%
LPI pension increases	**2.40%**	2.40%
Statutory increases in deferment	**3.00%**	3.00%
Mortality base table	**S2PXA YOB**	S2PXA YOB
Allowance for future improvements	**CMI 2017 1.25%**	CMI 2016 1.25%

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

	2018	2017
Longevity at age 65 for current pensioners		
Males	**21.9**	22.1
Females	**23.9**	23.9
Longevity at age 65 for future pensioners, now aged 45		
Males	**23.3**	23.5
Females	**25.4**	25.5

14D. Sensitivity analysis

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

	Total comprehensive income		**Accumulated fund**	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Before sensitivities	**(4,417)**	1,813	**26,572**	30,989
Reduce discount rate by 0.5% per year (2017: 0.5% per year)	**(5,488)**	568	**25,501**	29,774
Increase inflation 0.5% per year (2017: 0.5% per year)	**(4,782)**	1,398	**26,207**	30,574
Add one year to life expectances	**(4,741)**	1,481	**26,248**	30,657

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15. Intangible Assets

	Goodwill £'000	Other Intangibles £'000	Software £'000	Total £'000
Group				
Cost:				
At 1 January 2018	8,959	300	575	**9,834**
Additions	-	-	60	**60**
Disposal	-	-	(6)	**(6)**
At 31 December 2018	8,959	300	629	**9,888**
Amortisation:				
At 1 January 2018	8,159	163	412	**8,734**
Transfer from tangible fixed assets	-	-	6	**6**
Amortisation charge for the year	349	53	54	**456**
Disposal	-	-	(5)	**(5)**
At 31 December 2018	8,508	216	467	**9,191**
Net book value:				
At 31 December 2018	**451**	**84**	**162**	**697**
At 31 December 2017	800	137	163	**1,100**

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

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

In the year to 31 December 2018 there were no new acquisitions made by the Group.

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

Computer assets were previously disclosed within tangible fixed assets.

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

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

Subsequent to the application of amortisation charges for the year as outlined above, an impairment review was undertaken at the year-end. Following impairment made in previous years, no further impairment losses were recognised in 2018.

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

16. LAND AND BUILDINGS

	Owner occupied freehold property £'000	Investment property £'000	Total £'000
At market value:			
At 1 January 2018	1,260	1,187	**2,447**
Additions	-	50	**50**
Revaluation	-	88	**88**
At 31 December 2018	**1,260**	**1,325**	**2,585**
At cost:			
At 1 January 2018	2,103	20	**2,123**
Additions	-	50	**50**
At 31 December 2018	**2,103**	**70**	**2,173**

Post year end a planning appeal relating to 8.26 hectares of one of the investment properties, Tyn-y-Coed was successful. This would increase the year end valuation to £3,225,000 from £1,275,000. For further details see note 32.

17. SUBSIDIARY UNDERTAKINGS

17A. Summary of all subsidiary undertakings

The activities of the subsidiary companies during 2018 are below:

Trading Companies

BHSF Limited (limited by guarantee)	provider of health cash plans and other insurances
BHSF Management Services Limited	provider of administrative services to the group
BHSF Employee Benefits Limited	insurance broker and provider of employee benefits and employer-support services
BHSF Occupational Health Limited	provider of occupational health services
BHSF Newhall Medical Practice Limited	provider of occupational health services
Nexus Healthcare Limited	provider of occupational health services (now no longer trading and exempt from audit under Section 479A of the Companies Act 2006) as the Group agrees to guarantee liabilities of the Company

Intermediate Holding Company

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

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

Internal Group Structure

- The investments in BHSF Newhall Medical Practice Limited and Nexus Healthcare Limited were held by BHSF Occupational Health Limited.

In the case of each subsidiary, BHSF Group Limited is the sole ultimate shareholder or member. All subsidiary companies are incorporated in England and Wales.

Notes to the financial statements

For the year ended 31 December 2018

Investment in subsidiary undertakings

	£'000
Cost	
At 1 January 2018	7,175
Capital contributions	602
Redemption of preference shares	-
At 31 December 2018	7,777
Accumulated impairment provision	
At 1 January 2018	4,535
Impairment	1,702
At 31 December 2018	6,237
Net book value	
At 31 December 2018	1,540
At 31 December 2017	2,640

An impairment review was undertaken at the year-end. Following impairment made in previous years, further impairment losses were recognised in 2018.

17B. Summary of acquisitions during the year

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

18. FINANCIAL INSTRUMENTS, FINANCIAL RISK AND CAPITAL MANAGEMENT

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

18A Impact of financial instruments on financial statements

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

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

	2018 Cost £'000	2018 Fair Value £'000	2017 Cost £'000	2017 Fair Value £'000
Financial asset investments held at fair value				
Corporate bonds	4,611	4,558	5,061	4,788
Equities	7,045	7,751	7,022	8,879
Government bonds	3,632	3,901	3,847	4,514
Collective investment funds	4,247	4,080	4,294	4,693
Total financial assets held at fair value	19,535	20,290	20,224	22,874
Cash held in investment portfolio	495	495	725	725
Total investment portfolio	20,030	20,785	20,949	23,599
Debtors held at amortised cost	5,137	5,137	3,585	3,585
Cash held outside investment portfolio	3,552	3,552	6,531	6,531
Total financial assets	28,719	29,474	31,065	33,715

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

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

The statement of financial position contains creditors totalling £4,049 (2017: £3,917k). This includes a liability of £nil (2017: £319k) in respect of the Group's revolving credit facility.

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

18A.3 Financial assets – income statement analysis

	2018 £'000	2017 £'000
Financial assets measured at fair value		
Dividend and interest income from investment portfolio	**717**	714
Realised gains on assets held in investment portfolio	**91**	164
Unrealised (losses)/gains on assets held in investment portfolio	**(1,247)**	1,410
Rental income earned on investment properties	**4**	1
Total (cost)/income from financial assets measured at fair value	**(435)**	2,289
Interest earned on cash balances outside investment portfolio	**15**	18
Total income statement (charge)/credit	**(420)**	2,307
Amount recognised in technical account	**56**	52
Amount recognised in non-technical account	**(476)**	2,255
Total income statement (charge)/credit	**(420)**	2,307

18B. Financial risk management

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

18B.1 Credit risk

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

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

Notes to the financial statements

For the year ended 31 December 2018

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

	2018	2018	2017	2017
	£'000	£'000	£'000	£'000
Corporate bonds		**4,558**		4,788
Government bonds		**3,901**		4,514
Cash at bank or with investment managers		**4,047**		7,256
Debtors				
Current	**3,189**		2,946	
Between 1 and 3 months overdue	**1,317**		547	
More than 3 months overdue	**1,047**		169	
Total debtors before provisions	**5,553**		3,662	
Provisions against overdue balances	**(416)**		(77)	
Net debtors balance		**5,137**		3,585
Total credit risk exposure in the statement of financial position		**17,643**		20,143

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

As at 31 December 2018

	Credit quality 0 - 1	Credit quality 2 - 3	Unrated	**Total**
	£'000	£'000	£'000	**£'000**
Corporate bonds	1,583	2,975	-	**4,558**
Government bonds	3,901	-	-	**3,901**
Cash at bank or with investment managers	-	4,047	-	**4,047**
Debtors	-	222	4,915	**5,137**
	5,484	**7,244**	**4,915**	**17,643**

As at 31 December 2017

	Credit quality 0 - 1	Credit quality 2 - 3	Unrated	**Total**
	£'000	£'000	£'000	**£'000**
Corporate bonds	1,384	3,404	-	4,788
Government bonds	4,514	-	-	4,514
Cash at bank or with investment managers	-	7,256	-	7,256
Debtors	-	192	3,393	3,585
	5,898	10,852	3,393	20,143

The Group is also indirectly exposed to credit risk through holdings in collective investment bond funds. Such funds generally contain a large number of different bond assets and hence the impact of default of any one bond issuer on the value of the assets in the Group is limited. Total holdings in such funds were £1,173k (2017: £1,951k).

The Group manages the risk of default through investment and operational policies.

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

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

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

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

18B.2 Liquidity risk

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

The Group is exposed to liquidity risk in meeting operating costs as represented by the trade and other creditor figures on the statement of financial position totalling £4,049k (2017: £3,917k), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £2,425k (2017: £2,155k). Both of these exposures are due within 12 months of the statement of financial position date, and in particular the large majority of claims represented by the technical provisions are generally settled within three months.

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

18B.3 Market risk

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

18B.3.1 Currency risk

The Group's insurance operations are conducted almost entirely within the UK, with relatively small operational exposure to currency risk. The Group's investment policy does not allow direct investment in foreign currency assets and hence the Group's exposure to currency risk is restricted to foreign currency assets that are part of collective investment funds. Collective investment funds containing large proportions of foreign currency assets totalled £1,149k (2017: £700k) at the statement of financial position date.

Under the Solvency II insurance regulatory regime, insurers using a standard formula approach must hold capital to cover a 25% increase or decrease in relevant exchange rates. A 25% increase in the value of pound sterling relative to all foreign currencies would result in a loss of £288k (2017: £201k) being made due to negative movements in the value of investments. Meanwhile a 25% decrease in the value of pound sterling relative to all foreign currencies would result in a gain of £288k (2017: £201k) being made due to positive movements in the value of investments.

18B.3.2 Interest rate risk

Interest rate risk is the risk that asset fair values or future cash flows will fluctuate as a result of changes to interest rates. Interest rate risk affects the value of the Group's investments in corporate and government bonds, and also affects the value of

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For the year ended 31 December 2018

pension scheme assets and long-term liabilities, thus affecting the level of the defined benefit scheme deficit in the statement of financial position.

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

This analysis indicates that a shock to corporate bond yields could result in a charge of £751k (2017: £895k) and reduction in the accumulated fund of £591k (2017: £716k) or could result in a credit of £416k (2016: £426k) and increase in the accumulated fund of £337k (2017: £341k) according to the 31 December 2018 exercise. Due to the extremely low interest rate environment and easy-access nature of cash balances, interest rate risk on cash deposits and cash with investment managers is negligible.

18B.3.3 Other prices (equity) risk

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

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

The Group stress tests its exposure to equity prices using the Solvency II standard formula approach, which considers shocks of 32.66% (2017: 40.90%) and 42.66% (2017: 50.90%), depending on the exact nature of the investment. This analysis shows that as at 31 December 2018, such a shock would result in a profit and loss charge of £3,516k (2017: £4,767k) and reduction in the accumulated fund of £2,848k (2017: £3,814k). Conversely an increase by this amount would result in a profit and loss credit of £3,516k (2017: £4,767k) and increase in the accumulated fund of £2,848k (2017: £3,814k).

18C. Capital management

As a not-for-profit company limited by guarantee, BHSF Group Limited has limited scope for raising additional capital. As such, the only capital resource generally available to management is the accumulated fund balance of £26,110k (2017: £30,989k). The statement of changes in equity discloses information about the changes in the accumulated fund over the last 12 months.

The Company is subject to capital requirements imposed by the Bank of England's Prudential Regulation Authority (PRA) under Europe-wide solvency regulations. The Solvency II regulations came into force on 1 January 2016. This regime replaces the capital resources requirement (CRR) with a new solvency capital requirement (SCR). This is similarly formula-driven in its calculation, though the formula used is more rigorous and risk-focused than the previous regime. The SCR is significantly higher than the previous CRR due to the increased depth of the calculations and the fact it includes the assets and liabilities of the BHSF pension scheme, which were not included in the previous regulations. Under the new regulations, management are aiming to maintain capital to a level that exceeds the SCR by at least 50%.

As at 31 December 2018, BHSF Group's solvency ratio was 193% (2017: 216%) (unaudited). Further information on this and other regulatory matters can be found in the BHSF Group Solvency and Financial Condition Report available from www.bhsf.co.uk.

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

19. MOVEMENT IN REINSURANCE ASSETS

	2018 £'000	2017 £'000
Reinsurer's share of technical provisions brought forward	**192**	158
Technical provision movement attributed to reinsurer	**30**	34
Reinsurer's share of technical provisions carried forward	**222**	192

20. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2018 £'000	2017 £'000
Amounts receivable from policyholders and policyholder groups	**2,215**	1,881
	2,215	1,881

21. OTHER DEBTORS

	2018 £'000	2017 £'000
Trade and other debtors	**2,700**	1,512
Current taxation	**11**	146
Deferred taxation (Note 13)	**914**	152
	3,625	1,810

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

22. TANGIBLE FIXED ASSETS

	Assets under construction	Computer equipment	Furniture and equipment	Total
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 1 January 2018	67	791	1,296	2,154
Additions	-	118	141	259
Transfer	(67)	-	67	-
Disposals	-	(153)	(112)	(265)
At 31 December 2018	**-**	**756**	**1,392**	**2,148**
Depreciation:				
At 1 January 2018	-	532	1,098	1,630
Charge for the year	-	92	79	171
Disposals	-	(153)	(110)	(263)
At 31 December 2018	**-**	**471**	**1,067**	**1,538**
Net book value				
31 December 2018	**-**	**285**	**325**	**610**
31 December 2017	67	259	198	524

Computer software assets has been reclassified as intangible assets in the year.

23. TECHNICAL PROVISIONS

	Unearned Premiums	Claims	Total
	£'000	£'000	£'000
As at 31 December 2017	430	1,725	**2,155**
Technical provisions (released)/added	465	28,194	**28,659**
Technical provision acquired	(430)	(27,959)	**(28,389)**
Technical provisions utilised	**-**	-	-
As at 31 December 2018	**465**	**1,960**	**2,425**

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For the year ended 31 December 2018

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

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

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

Of the total claims provision, it is estimated that £222k (2017: £192k) will be recoverable from our reinsurer. A receivable equal to this amount is recognised as reinsurer's share of technical provisions in the statement of financial position.

24. OTHER PROVISIONS

	Deferred Tax	Other	Total
	£'000	£'000	£'000
As at 31 December 2017	257	15	**272**
Provisions added	11	24	**35**
Provisions utilised	(22)	-	**(22)**
As at 31 December 2018	**246**	**39**	**285**

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

Other provisions represent the dilapidations and an onerous lease on a property.

25. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2018	2017
	£'000	£'000
Revolving credit facility balance including accrued interest	-	319

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

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

26. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2018	2017
	£'000	£'000
Creditors due within one year:		
Trade and other creditors	**2,679**	1,942
Corporation tax	**159**	239
	2,838	2,181

27. LEASE OBLIGATIONS

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

	2018	2017
	£'000	£'000
Not later than one year - buildings	**266**	135
Not later than one year - other	**169**	115
Later than one year and not later than five years - buildings	**254**	139
Later than one year and not later than five years - other	**264**	110
Later than one year and not later than five years - buildings	**244**	-
	1,197	499

28. CAPITAL COMMITMENTS

The Group had commitments to make payments of £86,000 (2017: £105,700) during the next 12 months in respect of capital asset purchases.

29. CASH AND CASH EQUIVALENTS

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

	2018	2017
	£'000	£'000
Closing cash at bank per statement of financial position	**3,552**	6,531
Cash held in investment portfolio	**495**	725
Closing cash and cash equivalents per statement of cash flows	**4,047**	**7,256**

30. LEGAL FORM

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

31. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group totalled £1,505k (2017: £1,637k).

Purchases totalling £2,900 were made by the Group to Siobhan R Hall, the wife of Mr Brian Hall, who is a director of the Group. There was no balance due to Siobhan R Hall at either statement of financial position date.

Purchases totalling £23,661 were made by the Group to Shakespeare Martineau LLP, Chris Wiggin who is a director of the group is a Partner at Shakespeare Martineau LLP. There was no balance due to Shakespeare Martineau LLP at either statement of financial position date.

Purchases totalling £2,810 were made by the Group to St Basils, Sara Fowler who is a director of the group is also a director at St Basils. There was no balance due to St Basils at either statement of financial position date.

There were no other related party transactions other than those between members of the Company's group.

32. POST BALANCE SHEET EVENTS

Post year end a planning appeal relating to 8.26 hectares of one of the investment properties, Tyn-y-Coed was successful. This would increase the year end valuation to £3,225,000 from £1,275,000. The valuation is based on the minimum purchase price (in accordance with an option agreement with a third party) less costs and a deduction for risks and delays.

Business ethics policy

1. PREAMBLE

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

2. RELATIONS WITH CUSTOMERS

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

3. RELATIONS WITH MEMBERS

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

4. RELATIONS WITH EMPLOYEES

- Relations with employees are based on respect for the dignity of the individual.
- The Group will recruit and promote employees in accordance with its equal opportunities policy which is set out in the staff handbook.
- The Group aims to provide secure jobs and will therefore plan recruitment responsibly, in the light of information available at the time, and inform employees, as far as it is able, on employment prospects.
- The Group will seek to provide a clean, healthy and safe work environment in line with best practice. The Group and all employees will observe the health and safety policy, which is set out in the staff handbook.
- In recognition of the efforts of the individual in helping to create the success of the Group, the Group will seek to maintain a framework of fair and just remuneration policies and structures. Pay systems will seek to recognise both the contribution of individuals and the performance of the sector of the business in which they work.
- The Group will seek to encourage and help employees at all levels to develop relevant skills and progress their careers within the Group.
- The Group will seek to explain the purpose of its activities and individual jobs, foster effective communication and involve employees in improving their work and that of the enterprise as a whole.
- Employees will not use for personal gain or any purpose except that for which it is given information received by them in the course of business dealings and will maintain the confidentiality of confidential information relating to the Group or in respect of which the Group owes an obligation of confidence to any third party.
- Any personal interest that an employee of the Group or a member of his or her immediate family has in relation to the Group's business must be disclosed to the Group by the employee.

- The Group will not tolerate any sexual, physical, verbal or mental harassment of its employees.

- Whilst the Group endeavours to maintain the fullest communication with each employee as an individual, it recognises the need to develop effective processes for communication and consultation with employees in the natural groupings in which they work and, where appropriate, for individuals to be suitably represented in discussions.

5. RELATIONS WITH SUPPLIERS

- The Group will aim to develop relationships with its suppliers based on mutual trust.

- The Group will use all reasonable efforts to pay its suppliers on time and according to agreed terms of trade.

- The purchasing power of the Group will never be used unscrupulously.

- Employees will observe the Group's policy on gifts and hospitality from business contacts, which is set out in the staff handbook.

- The Group will maintain the confidentiality of confidential information concerning the relationship between the Group and a supplier.

6. RELATIONS WITH THE GOVERNMENT AND THE LOCAL COMMUNITY

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

- Employees are encouraged to participate in community and civic affairs.

- The Group will support the community by charitable donations and by the voluntary efforts of its people.

- The Group will not knowingly evade tax obligations.

- The Group will record and report all transactions, including those where payment is made in cash.

- All taxable perquisites to which employees are entitled will be listed by the Group and declared for tax purposes.

- During the course of their work all employees are required to comply with all relevant legislation and the rules of any relevant regulatory organisation. Any employee who has any doubts about compliance matters should immediately seek the advice of his or her manager.

7. RELATIONS WITH COMPETITORS

- The Group will compete vigorously, but honestly and will not seek to damage the reputation of competitors.

- In any contacts with competitors, employees will avoid disclosing proprietary or confidential information.

- The Group will not attempt to acquire information regarding a competitor's business by disreputable means.

- The Group will not engage in restrictive trade practices or abuse any position of market dominance.

8. THE ENVIRONMENT

- The Group is concerned with the conservation of the environment, and recognises that certain resources are finite and must be used responsibly.

- Surplus furniture and equipment will be offered to suitable organisations for re-use. Recycling will be practiced wherever possible.

9. DATA SECURITY AND CONFIDENTIALITY

- The staff handbook gives guidance on the need to keep certain information confidential and employees are required to comply with this.

- The Group publishes a computer policy statement, which is contained in the staff handbook, and breaches of it will be regarded as a disciplinary offence.

10. COMPLIANCE AND VERIFICATION

- The Group expects all employees to adhere to the provisions of this policy.

- The Group aims to create the climate and opportunities for employees to voice genuinely-held concerns about behaviour or decisions that they perceive to be unethical.

- The Group Human Resource Director is responsible for initiating and supervising the investigation of all reports of breaches of this policy and ensuring that appropriate disciplinary action is taken when required.

- The Group's auditors may be asked to report on any practice they discover in the course of their work which appears to breach the policy.

BHSF Group Limited
Gamgee House 2 Darnley Road Birmingham B16 8TE
Telephone: 0121 454 3601 Fax: 0121 454 7725
E-mail: info@bhsf.co.uk
www.bhsf.co.uk