BHSF Group Limited

Annual report and financial statements

For the year ended 31 December 2019

Company number 4767689

bhsf

Company information

Directors	Jill Bonehill Caroline A Coates Gary T Cowdrill Sara Fowler Ian R Galer Geoffrey MW Guerin Brian Hall Adrian Hope Andrew Milner (Chairman) Thomas C Ross Christopher C Wiggin
Company Number	4767689
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Independent Auditor	BDO LLP Two Snowhill Birmingham B4 6GA

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Chairman's statement

For the year ended 31 December 2019

To say that we live in interesting times is clearly an understatement. The transformation programme, which we embarked on last year, has resulted in BHSF being able to match much more closely the needs of our customers as well as introduce a much broader range of health and wellbeing products and services. I mentioned in last year's statement that we were investing heavily in new IT systems to provide more efficient ways of working, through digitalising our processes, as well as enabling our customers to use their preferred method of communicating with us and complete their transactions as flexibly as possible.

Little did we understand how valuable this investment, over a critical-two-year period, would prove to be. Not only have we now positioned the Group to be where our customers expect any modern, customer centric organisation to be with an interactive website, apps, Twitter, LinkedIn, virtual clinics etc. but we have built huge resilience into the BHSF Group and its operating companies.

At the time of writing this statement the UK has entered one of the most difficult periods in its history with the outbreak of COVID-19 and all the subsequent restrictions which have been introduced. Two years ago this crisis could have stopped BHSF in its tracks and it would have been very difficult for us to support our wide range of customers across the UK and the Republic of Ireland. However, as a result of the investment made and the very hard work and adaptability of our employees we have been able to continue seamlessly using technology at its best.

Colleagues are working remotely, speaking with our customers, processing claims, promoting our products and undertaking occupational health virtual clinics in support of the major organisations, which we are proud to have as our customers and which are critical in keeping all of us safe and well; organisations such as the NHS, care providers and food manufacturers. All of this is being achieved whilst complying with Government advice and regulations and maintaining the safety of our employees.

COVID-19 impacts on everyone and as a health and wellbeing company we are deeply aware of both the immediate and longer-term consequences of COVID-19. We want to continue to provide the very best support that we can to all our customers through this very difficult period and beyond. We have not allowed the COVID-19 to stall the launch of our new services – Connect, First Day Absence and Rise. We see these services as being needed even more by our customers now and in the future.

Rise supports people with complex and varied needs, offering counselling, debt advice, and legal advice among other services. The Connect app provides on-line access to a range of services including a GP, legal and debt advice as well as shopping discounts. First Day Absence provides support to employees on their first day of absence from work by helping with the diagnosis and then, when required, access to medical assistance and treatment. All our products and services are designed to help build resilience in the workplace, supporting employees and employers.

Our three year financial forecasts showed that with the high level of investment required in IT and the costs of transforming how we operate, as well as bringing in new products and services, our underlying operating performance would be affected. Financial markets and the realisation of other investments have helped during 2019 enabling a positive outturn. However, the significant falls in financial markets during the first half of 2020 will make it that bit more difficult for our original three year forecasts to be met. The financial markets will recover and the Board is confident that the agreed strategy is correct and starting to deliver.

Over the last two years strong foundations have been laid for the future of BHSF led by the Board and our Chief Executive Ian Galer. We have a strong and capable Board with a rich mix of skills and experience at both executive and non-executive level. The Board is supported by a strong team of managers who ensure that the Group's operations are running smoothly and effectively within what is a highly regulated and accredited environment. I feel privileged to be working with such a talented, committed and enthusiastic team and I thank them for their support.

Dr Carol Coombes OBE, one of BHSF's non-executive directors, passed away in August 2019 after a long and courageous battle with cancer. Carol was a valued member of the BHSF Board since October 2014. Carol brought her own extensive and valuable skills and experience to our board and always ensured that concern for people was at the forefront of any discussions. Her concern was not just about our employees but about the people in the wider community we serve. Carol was a caring and passionate person who campaigned tirelessly for people's rights and was an inspiration to so many people.

The end of 2019 saw the retirement of our Chief People Officer, David Nuttall, after almost 20 years loyal and valuable service with BHSF during which time he took on a number of roles across the Group. At the beginning of 2020, after 15 years at BHSF, Charlotte Taylor took the opportunity of a career change having been a director and Company Secretary for much of that time. We wish them both well as they embark on the next phase of their lives.

As non-executives reach the end of their terms of office we have endeavoured to continue to appoint new directors with high levels of skills and experience to take the business strategy forward over the next decade and strengthen BHSF as a leading health and wellbeing provider. I am delighted that in the first quarter of the new financial year 2020, Caroline Coates has joined the BHSF Group Board as a non-executive director. Caroline is a former partner in the leading law firms DWF LLP and Buller Jeffries. Caroline is currently an independent consultant working in motorsport (W Series Ltd) and automotive sectors, specialising in risk; an advisory board member at Zenzic, a director at Birmingham Law Society; a governor at Ronald McDonald House, Birmingham and a governor at Bilton Grange Preparatory School.

Attracting high calibre directors and employees helps to underpin the values and culture within BHSF and they are all supported by a tailor-made comprehensive training and development programme. The Board is determined to ensure that our culture and values are at the core of everything we do and shape the way we wish to operate in meeting the needs of our customers and working with our suppliers. Recently the Board has become engaged directly with the new Staff Forum and representatives of the Staff Forum will be attending our Board meetings in 2020. All directors are also involved in the staff roadshows as well as the Group's activities in promoting diversity and inclusion in the workplace and other employee engagement events.

BHSF, as a not-for-profit company, has adapted to the many changes in society since it's foundation in 1873. The fact that BHSF has grown and continues to grow well beyond the original organisation started by our founder Dr Joseph Sampson Gamgee, is a clear testimony to past and current employees; their dedication, innovation and adaptability. I wish to pay tribute to all our current employees who have been serving and continue to serve our customers to the very best of their ability with outstanding dedication.

Finally, we knew that in achieving our transformation objectives we had set ourselves ambitious targets. We remain undaunted by the task in hand, with the onset of COVID-19 making us all the more resolute in our endeavours to ensure that the BHSF Group is the go-to company for health and wellbeing products and services.

Andrew Milner
Chairman
12 August 2020

Group Chief Executive's business review

For the year ended 31 December 2019

Introduction

2019 was a very important year for BHSF and one which saw the Group start the process of moving in a new direction. Because of this it was a very busy and for many at BHSF a very difficult year. However this pales into insignificance in the light of what everyone is going through in 2020 which has seen the national lock down to curb the impacts of the Coronavirus pandemic. All of our efforts this year have been to protect the health and wellbeing of our staff and to try to ensure the continuity of service to our customers wherever possible. I am pleased to say that much of the work we have done on operational resilience over the past couple of years has stood us in good stead for the current crisis with everyone now able to work from home.

Transformation

Following the significant losses incurred during 2018 a great deal of work was done to identify what changes were required to put the business back onto a sound footing. We first revisited our strategy and our purpose, to have a positive impact on the health and wellbeing of the people we reach. We have addressed the losses suffered by the insurance business and digitalised our health cash plan business, making it more efficient and bringing it in line with other types of insurance. We have implemented plans to grow the other parts of the business and have developed our occupational health business and the other non-insurance products which are dealt with below. Much of the work performed in 2019 and early 2020 has helped us in the current crisis.

Results for the year

In last year's annual report I described 2018 as being a perfect storm with operating losses in both the underwriting and occupational health businesses and a large investment loss due to a significant fall in the markets late in 2018. I am pleased to report that the underwriting business returned to profit in 2019 and the losses incurred in the occupational health business were significantly lower. The markets continued to be volatile during the year but ended on a high resulting in investment gains of nearly £4m which included a profit on the sale of land in Wales of £2.4m. The BHSF Employee Benefit Limited and BHSF Occupational Health Limited sales teams have had another good year with record sales again in excess of £10m, an increase of 10% on the previous year. A huge thank you to all the sales staff and the back office staff responsible for processing the sales. As health cash plans will now be sold online or through intermediaries, there is a new challenge for the sales teams in 2020 in building the sales of the other products, a task that has been made even more difficult by the COVID-19 pandemic as face-to-face sales are no longer possible. I am confident, however, that the sales team will face this challenge with energy and enthusiasm, supported by other parts of the business, and in particular marketing, in which we have continued to invest.

Due to the above, group wide revenue grew by 4% to £51.0m and with claims only increasing by 2%, the underwriting result showed a surplus on the Technical Account of £0.2m compared to a deficit of £1.2m in 2018. This combined with the favourable investment result gave rise to a surplus on ordinary activities before tax amounting to £0.3m compared to a deficit of £5.1m in 2018. However, note this result is after incurring exceptional items of £0.47m relating to transformation and restructuring activities currently being undertaken by the Group (note 13).

After taking into account tax and an increase in the pension scheme deficit there was total comprehensive income (an overall loss) of £(0.8)m, an improvement on 2018 which saw a comprehensive income of £(4.4)m.

Regulations

2019 was another busy year for our regulatory work and this continues to take up a lot of management and staff time. In the spring we published our latest Solvency and Financial Condition Report and in December we submitted our latest Own Risk and Solvency Report, and I thank those that have worked so hard in further developing these documents and embedding risk assessments into our daily operations. 2019 was the first full year of the General Data Protection Regulation and our processes to comply with this were further strengthened during the year. With the Senior Managers and Certification Regime having gone live for BHSF Limited in December 2018, it was the turn of the sales teams of BHSF Employee Benefits Limited in 2019 and this work was completed on time as planned. These responsibilities are taken very seriously by all the responsible officers and the impact of this regime is regularly reviewed at Board level.

Insurance business

There has been no further increase in Insurance Premium Tax and therefore assessments for potential premium increases have concentrated on performances of individual books of business rather than having to factor in additional increases to cover tax increases. This was managed very well in 2019.

Overall earned premiums increased by 4.2% to £41.4m and with claims increasing at a much lower rate and expenses falling slightly, there was an overall surplus on the technical account, an improvement of £1.5m on the previous year.

There were huge developments in our insurance business in 2019, firstly early in the year with the modernisation of some of the processes which was made possible by the outsourcing of the scanning of documents to a specialised centre in Slough. This meant that most of the work performed by our back office team can now be performed at home which has stood us in good stead during the current pandemic crisis, ensuring we can continue to provide a good service to our customers in these difficult times. Secondly in the latter part of the year the processes were digitalised enabling our customers to take control of their own policies by logging onto a BHSF portal. Sales to prospective customers are now done via our website rather than through our sales teams. Our online claims service continues to grow in popularity with over 50% of all claims being online (up from 30% at the end of 2018) and this again has helped during the current crisis.

It is unclear as yet as to what impact the Coronavirus pandemic will have on the insurance business. We are already seeing a fall in the number of dental, optical and physiotherapy claims as people are less likely to be able to access these services. However we expect a surge in such claims when the lock down is relaxed and we also expect there to be an increase in hospital in-patient claims as a direct result of the pandemic. Overall we are forecasting a final 2020 position worse than that originally budgeted but still a small profit.

Occupational Health

Our occupational health business too has had a very busy year which has seen many changes. The most important change was the introduction during the summer of the Cohort clinical administration system which has meant that for the first time this business has one administration system across the whole business. This has provided many advantages, in particular providing our customers with the ability to book their own clinics online. It also means that the various offices around the UK can support each other as they are all using the same system. This meant we were able to close the administration offices in London and Newcastle (although clinics continue in Harley Street and Newcastle), providing this support from our Birmingham and Belfast offices and in the process making significant savings.

Although this business still made a loss, it showed a bottom line improvement of £0.6m and with further new business won plus continued efficiencies, things bode well for 2020. However the pandemic has had an impact as clinicians are unable to perform face to face clinics. Fortunately new products had been introduced at the start of 2020 and one of these was virtual clinics. The take up for these was quite slow at the start of the year but we have seen a large increase in the numbers of video and telephone clinics during the lock down. Overall business is down considerably but there is a light at the end of the tunnel with the future opportunity of improved efficiency derived from expanding our virtual clinics.

Early in 2020 the decision was made to cease our GP operations as part of BHSF Medical Practice Limited in Birmingham and move our Birmingham OH clinics to our city centre site. It became clear during 2019 that although we were seeing growth in the Medical Practice, this came at a significant cost, as it required a great deal of marketing spend. This, combined with new entrants competing in the local market and the realisation that there is a ceiling to demand for this sort of offering in Birmingham, meant that this business was likely to make losses in the foreseeable future. Some of the business will remain with Occupational Health, such as medicals and vaccines, and this business will look to grow its share of the city centre corporate market in these areas.

Employee benefits

BHSF Employee Benefits Limited employs the Group's sales and marketing teams. Selling health cash plans has been the core market for many years but with the transformation in 2019 this was scaled down during the year resulting in a reduction in revenue in this company and an overall loss. Going forward, the sales and marketing teams will concentrate on our hero products including occupational health, the smartphone app Connect and the new health and wellbeing product, Rise.

Rise is a new triage service designed to look after people who may be struggling with mental health issues and providing them with services such as counselling, GP services, debt advice and legal advice. Once they have made contact with the service they are supported step by step to overcome the issues they face. To bring this to the market, BHSF has partnered with SME HCI to create our first ever joint venture, The Employee Resilience Company (TERC) with a highly qualified team of health professionals and counsellors run by Tracey Paxton and Amanda Smith. The joint venture was set up in two months in the second half of the year which was a monumental effort by all those involved. During 2019 all of the existing Employee Assistance Programme (EAP) contracts were transferred to TERC and we saw an immediate improvement in the service being provided. Rise was launched in February 2020 and we have already seen a lot of interest in this service, particularly with the stress and mental health issues being caused by the Coronavirus pandemic.

Investments

UBS manages the investment portfolios of both BHSF Limited and the Group's defined benefit pension scheme. Although it was another turbulent year on the markets, the Company saw unrealised gains for the year of £1.2m and realised gains of £0.3m, although investment income was slightly down on 2018. On top of this the Company made a £2.4m realised gain on the sale of some of its land in Wales.

During 2019 the management of the Company investment portfolio was put out to tender and I am pleased to say that up against some stiff competition, UBS retained this contract.

Actuarial

Our closed final salary pension scheme continues to be a major risk to the Company which we monitor closely with the pension trustees. The pension scheme forms a key part of our Solvency II regulatory capital calculations.

Despite the improvement in investment valuations, the pension scheme deficit on an FRS102 basis increased from £1.3m to £1.6m. A more accurate valuation, the triennial valuation, is performed as at 31 March 2020 and this will be hugely impacted by the Coronavirus pandemic which has resulted in a large hit to the markets. The Company continues to make monthly contributions to the pension scheme and we will wait to see what happens to the markets and the pension deficit over the next few months before making any decisions about the scale of the contributions required in future.

People

I am always proud of my BHSF colleagues but never more so than over the past twelve months. The transformation resulted in huge change and extra work for many people and also there was a reduction in staff numbers as a direct result of the transformation. Despite it being such a tough year I have seen so much enthusiasm and dedication to the cause. Recently we set up a Staff Forum to give staff more of an opportunity to work closely with senior management and have more of a say in the culture and operations of the business.

We take the welfare of our staff very seriously and this has never been more important than during the Coronavirus pandemic. All but a handful of our 300 plus colleagues are working from home and this is due to the business continuity work performed over the last couple of years plus a final push by our IT colleagues in March to ensure everyone can now work from home safely and effectively; I would like to thank IT for all their hard work during this period. In fact, I would like to salute everyone at BHSF for their adaptability, their hard work and not least their sense of humour.

There are some staff who are on furlough and we are very mindful that some may feel isolated from the business and their colleagues. We have put in place communication channels to ensure we keep in touch with our colleagues on furlough. Our colleagues in work are getting used to working from home with all the associated challenges such as having to look after children and home-school them. Everyone has their own issues to contend with but despite this they are continuing to provide our customers with the service they would expect. I am confident that with this attitude, BHSF will come through this testing period able to flourish going forward.

Ian R Galer
Group Chief Executive
12 August 2020

Strategic report

For the year ended 31 December 2019

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
BHSF Management Services Limited	Administration for other group companies

Future planning and position of the business

During 2019 we undertook a number of developments. These included implementation of a new IT system in our occupational health business, bringing the whole business onto a single, modern system. We also invested in and began transitioning to new digital platforms for our health cash plan business and back office which should see increased efficiencies across the Group. In our employee benefits business, we launched a new version of our Connect app, and entered into a joint venture to offer BHSF Rise – a brand new telephone triage service designed to look after people struggling with physical or mental health, debt, or legal issues.

Following these developments, plans for 2020 were for a substantially improved operating result. Using new systems, BHSF Occupational Health was planned to deliver more revenue for less cost. BHSF Employee Benefits has been challenged to deliver significant sales of its promising new products. BHSF Limited planned to deliver a strong result, leveraging its new digital platforms into improved customer service and greater efficiency.

As with many businesses, the COVID-19 pandemic has had a dramatic impact on plans for 2020. Some occupational health work becomes impossible as it requires face-to-face contact, while the general reduction in economic activity lowers demands for occupational health work.

Face-to-face sales meetings have ceased, and customer organisations find their cash flows and buying power under strain. This creates a challenging environment for BHSF Employee Benefits to sell its new products.

Finally, the insurance business of BHSF Limited stands exposed to claims for hospital stays as a direct result of COVID-19.

This situation creates significant uncertainty for the Group as it moves through 2020. Achievement of budgeted results for 2020 is therefore in doubt, but there is a wide range of possible outcomes. These depend on a number of factors outside of the Group's control, such as the length of lockdown periods, and the behaviour of businesses and consumers in general as restrictions are lifted.

As these consequences of the pandemic emerged in 2020, there is no impact on the 2019 financial statements. However, note 33 to the 2019 financial statements includes greater detail on specific risks arising from the situation and how they may impact the 2020 financial statements.

The UK left the European Union (EU) on 31 January 2020 and entered a transition period due to finish on 31 December 2020. To some extent this continues to present an uncertainty to the business. The transition away from the EU could potentially lead to changes in laws and regulations affecting various aspects of the Group's operations, while fluctuations in the value of sterling could change the value of the Group's investment portfolio. At this stage it is uncertain what the precise impact on the Group will be. The Group has a proportion of its business operating in the Republic of Ireland. Developments with regards to cross-border trading with the EU (or the Republic of Ireland in isolation) are being monitored carefully. A number of potential courses of action are available to the business if trading across the border becomes significantly curtailed by any resulting trade agreement.

Risk management philosophy

Risk management should be a continuous and evolving process that runs throughout the strategy 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 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 constituted 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 and uncertainties

Under the Solvency II regulatory regime, the Group has Board-approved policies for all principal risk categories (see note 20). 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, and 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.

Financial Risks of Climate Change

Climate change, and society's response to it, presents many financial and non-financial risks. Whilst the financial risk from climate change may crystallise in full over a longer time horizon, there are some already becoming apparent. The PRA issued a supervisory statement in April 2019, requiring firms to consider the financial risks of climate change. The Board has assigned Tom Ross, the firm's Chief Finance Officer, the responsibility for the identification and management of these risks. A full risk identification and assessment exercise will take place during 2020.

With risks, there are potential opportunities. As discussed above, the Group has concentrated efforts in defining a paperless journey for our customers, with full digitalisation of the business expected to be complete in 2020. The move away from paper and physical sales channels reduces the Group's carbon footprint.

Performance

The performance of the Group's business is set out in the financial statements and the Board considers 2019's performance to have been an improvement on 2018, but still capable of improvement. On the anticipation of these results, a transformational review was conducted in 2019, culminating in the digitalisation project referred to elsewhere in this report. This project should complete during 2020 and deliver a foundation for better results in future years.

Revenues increased in 2019, driven by growing sales in the occupational health division, and further growth in the health cash plan division thanks to some excellent sales results in recent years. Unfortunately, costs have also increased in the delivery of occupational health services, although the costs of claims payments to insurance policyholders was lower than the previous years, relative to premium income. Overhead costs have also increased, driven by one-off costs associated with transformation, including substantial investment in our IT infrastructure and, unfortunately, some redundancy costs. We expect some further expenditure in these areas to continue into 2020, though less than in 2019.

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

KPI	2019	2018
Total Revenue	£50.9m	£48.8m
Total Revenue growth rate	4.3%	10.2%
Insurance claims ratio*	72.1%	73.7%
Insurance expense ratio*	27.5%	29.5%
Insurance underwriting result	£0.20m	£(1.29)m
Increase in polices underwritten	3%	7%
Solvency:		
BHSF Limited	193%	173%
BHSF Group	174%	193%
Non-insurance business margin	£(3.9)m	£(2.8)m
Investment income & net investment returns	£4.5m	£(0.5)m

* calculated as percentages of earned premiums.

Further information on the Group's performance in 2019 and its future prospects is set out in the Group Chief Executive's Review on pages 4 to 7.

Post balance sheet events

Subsequent to the statement of financial position date, a global pandemic was declared in respect of COVID-19. This has had far-reaching implications for daily life in the UK in the first half of 2020. As this happened after the end of the 2019 year, there are no direct impacts on these financial statements. In particular, scenario analysis conducted by the business along lines of profitability, capital adequacy, and liquidity indicate no significant concerns with the Group's ability to continue as a going concern.

Additionally, from an operational perspective the investments made in new technologies during 2019 have enabled the business to react seamlessly to the application of social distancing and lockdown measures with no interruption to services. However, there are a number of areas of the Group's business which have been affected by the pandemic. The operational, underwriting, market, liquidity, and pension scheme impacts have been reviewed in depth in note 33 to the accounts.

Section 172 Statement

The directors have a duty to promote the success of the company for the benefit of the members as a whole, but also to have regards to the interests of all stakeholders, and in doing so have regard (amongst other matters) to factors (a) to (f)

a. The likely consequences of any decision in the long term,
b. The interests of the company's employees,
c. The need to foster the company's business relationships with suppliers, customers and others,
d. The impact of the company's operations on the community and the environment,
e. The desirability of the company maintaining a reputation for high standards of business conduct, and
f. The need to act fairly as between members of the company.

Carefully taking into account the interests of all stakeholders is one way in which a company ensures its success. This report explains to readers how the directors of BHSF Group Limited carry out these duties.

It covers two areas:

1. Key stakeholder groups and how their expectations are taken into account in general terms.
2. How critical decisions made during the reporting period took account of stakeholder interests.

This report covers the company's financial year ending 31 December 2019.

Stakeholder Management at BHSF

Who are BHSF's Stakeholders?	How does BHSF engage with them?	What are their expectations?
BHSF Group employees	Day-to-day communications Regular company-wide newsletters Roadshows and other occasional events	Culture in line with corporate values Career development opportunities Training opportunities Secure, fulfilling jobs in a safe working environment
Members (drawn from client businesses)	Newsletters Annual report and accounts Solvency and Financial Condition Report	Careful financial management Caring treatment of their workers
Insurance Policyholders	Clear policy documents Written communications around major changes Surveys	Caring and fair treatment Clear communications Timely claims payments Secure and resilient processing of data
Medical clients	Post-appointment feedback	Caring, sensitive medical opinions Clinical expertise
Corporate Customers	Customer relationship teams Surveys Case studies	Products which improve health or wellbeing of their staff Professional, efficient, secure, and resilient processes
Suppliers	Supplier management team	Timely payments Opportunities to increase the reach of their products Ethical, open and fair treatment (please refer to the corporate responsibility statement on pages 18-19)
Regulators and Government Authorities	Regular returns Ad-hoc communications	Prudent business management Adherence to conduct rules, laws and regulations Fair treatment of insurance customers and policyholders Operational resilience Culture of sound business ethics Environmentally sensitive operations (please refer to the corporate responsibility statement on pages 18-19)
Reinsurers	Supplier management team Day-to-day communications with operational teams	Open, honest communications Robust processes and procedures
Sales intermediaries	Intermediary management team Events, briefing and training days	Quality products which meet customer demands Timely payment of sales commissions Professional, efficient processes
Pension Scheme Trustees	Attendance by directors at trustee meetings	Prudent management of company resources

Critical Decisions Taken During the Reporting Period

There has been one critical decision taken during the period – digitalisation of the health cash plan business.

What are the consequences of this decision in the short and long term?

Digitalisation of the health cash plan business refers to a root-and-branch modernisation of the way in which we deliver our business. It means the gradual phasing out of paper forms, such as those used for claims and applications. It also means moving towards the exclusive use of secure online portals for exchanging data with corporate customers and intermediaries.

Initially, it is anticipated that this might cause a small amount of disruption for some customers as they adjust to the new ways of working. However, over the longer term it is expected that BHSF, its corporate customers, and insurance policyholders will all benefit from more efficient end-to-end processes. As such, premium income may decrease as customers opt not to transition with us. However, the shift away from face-to-face sales and on to digital sales channels will significantly decrease sales commissions meaning that profitability should be improved to compensate for lowered revenues.

What is the impact on BHSF Group employees?

BHSF Limited does not employ any staff. However, other companies in the BHSF Group employ staff specifically to deliver services in relation to BHSF Limited's insurance business. A detailed internal communications plan around the changes was put in place. Numerous areas of the business were affected, and a number of consultation exercises were run, which resulted in a number of voluntary redundancies. In keeping with BHSF's ethical business practices, any staff leaving us were given high quality outplacement support, and many gave positive feedback about the way the business had handled the process.

What is the impact on business relationships with customers and insurance policyholders?

Many corporate customers see the benefit of a digitalised delivery model and welcome the opportunity to have better control over the data they share with us. Though a very small number of customers are not prepared to make the transition to our digital platforms, we are receiving positive feedback from those who have, and expect the vast majority of our customer base to transfer over the course of 2020.

Insurance policyholders are still able to receive communications in a form that suits them. However, as more and more customers move to electronic application forms, claims forms, and payments, the entire customer journey increases in speed. We have received excellent feedback on our online claims service, and continue to develop this.

What is the impact on business relationships with sales intermediaries?

Sales intermediaries in the insurance business face some substantial challenges from digitalisation because they often manage a significant number of corporate customers whose own desires and capabilities with regards to digitalisation will vary. Sales intermediaries have also gained access to selling several brand new products from elsewhere in the BHSF Group, enabling them to maximise value to their customers.

What is the impact on the environment?

Although we source our paper and printing from reputable and sustainable sources wherever possible, the digitalisation will significantly reduce the use of paper. Along with this, the carbon footprint attached to postal deliveries of paper documents will decrease. The move to digital sales channels reduces the carbon footprint attached to sales activity, as face-to-face sales journeys are reduced or removed. Further, remote working of BHSF Group staff becomes as straightforward as office-based working, enabling an increase in flexible or home working to decrease the carbon footprint of day-to-day commutes

What is the impact on the reputation of the business?

By removing the significant majority of paperwork, risk of error is reduced and there are therefore opportunities for the reputation of BHSF to be enhanced. Further, given the increasing prevalence of fully-digital services in the insurance and other industries, failure to transform in this way could pose an increasing risk to the reputation of the business, as other firms transform, and manual or paper-based systems come to be seen as antiquated.

Is the decision fair to all members?

The Group's members are primarily drawn from the customer base. Representatives of corporate customers are invited to be members to represent the interests of their employees. BHSF Group is not-for-profit and members have no financial interest or ability to make financial gain as a result of their membership. Therefore, the interests of our members are aligned with the interests of our corporate customers. That is, they want what is best for their workers. Although a small number of customers are not willing to make the change to digital systems, as discussed above, the vast majority are expected to see the benefits.

This report was approved by the board on 12 August 2020 and signed on its behalf by

Ian R Galer
Group Chief Executive

Directors' report

For the year ended 31 December 2019

The Directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 December 2019.

Independent non-executive directors

- Dr Andrew Milner LL.D, DMS, DipM, FIMgt, MCIM, Chairman
- Jill Bonehill ACIPP
- Caroline Coates LLB (appointed 10 March 2020)
- Dr Carol Coombes OBE, D Univ (resigned 13 August 2019)
- Gary Cowdrill FCA
- Sara Fowler BA (Hons), MAE, FCA
- John Hardy B.Com (resigned 02 July 2020)
- Chris 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 (Hons), BA, MBCS, Chief Information Officer
- David Nuttall MBA, Chartered MCIPD, Chief People Officer (resigned 20 December 2019)
- Tom Ross MMath (Hons), ACA, Chief Finance Officer

Honorary Officers

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

Committees

There are currently six board committees:

Audit Committee:
Gary Cowdrill (Chair of the Committee)
Sara Fowler
John Hardy (resigned 02 July 2020)

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:
Caroline Coates (Appointed 17 June 2020, appointed Chair of the Committee 03 July 2020)
John Hardy (Chair of the Committee resigned 02 July 2020)
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
Chris Wiggin (Chair of the Committee)
Jill Bonehill
Carol Coombes (resigned 13 August 2019)
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 and monitors the health and wellbeing of staff and monitors and promotes the culture and values of the Group.

Risk and Compliance Committee
Caroline Coates (Appointed 18 March 2020, appointed Chair of the Committee 03 July 2020)
John Hardy (Chair of the Committee resigned 02 July 2020)
Jill Bonehill
Gary Cowdrill

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 (Chair of the Committee)
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 (Chair of the Committee)
Diane Burdett (resigned 31 December 2019)
Geoff Guerin
Brian Hall
Adrian Hope
David Nuttall (resigned 20 December 2019)
Tom Ross
Shelley Rowley
Charlotte Taylor (resigned 14 February 2020)
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 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; and
- 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 £20,348 (2018: £22,238) by gift aid during the year. The Group made no political donations during the year (2018: nil).

Statement regarding information given to the auditor

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

- There is no relevant audit information of which the auditor is unaware, 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

Advisors

- Principal bankers – The Royal Bank of Scotland plc
- Principal solicitors – Weightmans LLP, Integra Legal Limited, Sydney Mitchell and Shakespeare Martineau LLP
- HR advisors – Citation Limited
- 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 – Barnett Waddingham
- 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) certification, and we were re-certified in 2019 under ISO 9001:2015 for a further 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.

We value the views and opinions of our employees and encourage new ideas and suggestions. The employee voice is represented through our Staff Forum and we encourage a 2-way communication with the leadership team. Recent feedback indicated that we need to communicate better with our employees; we are actively looking at where the issues lie and responding with an Internal Communications Strategy that covers all areas of the business.

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 applications 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.

Future developments

This has been included in the strategic report on pages 8 - 12.

Financial instruments and risk management

This has been included in the strategic report on page 9 and Note 20.

Post balance sheet events

Subsequent to the statement of financial position date, a global pandemic was declared in respect of COVID-19. This has been referred to on page 10 of the strategic report and in depth in note 33 to the accounts.

This report was approved by the Board on 12 August 2020 and signed on its behalf by;

Ian R Galer
Group Chief Executive

Directors' profiles

Directors' profiles, officers, directors of subsidiary companies and senior management

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 working in finance with BDO Binder Hamlyn (where he qualified as a Chartered Accountant) 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.

Brian Hall
Chief Commercial Officer

Brian Hall has been with BHSF since 2001, when he was elected to the board of BHSF Limited as Sales and Marketing Director. He joined the board of BHSF Group Limited in 2003 and is now also Managing Director of BHSF Employee Benefits Limited. He is Chief Commercial 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 is also a Mediator, Business Consultant, Professional Deputy and is a NED for two Cyber Companies. He 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 now Managing Director of BHSF Limited and BHSF Occupational Health Limited. He 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.

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 a non-executive director of Mpac Group plc and 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 Corporate Services Officer.

John Hardy
Non-executive Director
(resigned 02 July 2020)

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.

Caroline Coates
Non-executive Director

Caroline Coates is a lawyer with over 25 years' experience in the insurance, automotive, motorsport, manufacturing and public sectors. She was a partner at DWF until 2018. Caroline joined the board of BHSF Group Limited in 2020.

Officers

President
The Right Worshipful the Lord Mayor of Birmingham,
Councillor Mohammed Azim

Vice Presidents
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

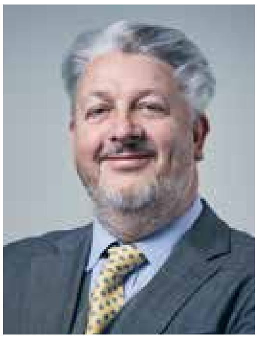
Philip McCrea
Chief Medical Officer

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. He is Chief Medical Officer for the Group.

Shelley Rowley BSc, MSc
Chief Transformation Officer

Shelley Rowley joined BHSF in 2011. In 2019 she was appointed as a director of BHSF Medical Practice Limited and in 2020 was appointed to the board of BHSF Management Services Limited. She is Chief Transformation Officer for the Group.

Senior managers



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

Louise Eden BA, Dip PFS, MICA
Head of Compliance

Dr David Poots FFOM
Senior Medical Officer

Paul Brady
Head of Commercial Development

Richard Evanson BSc
Head of IT

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

Adam Lea BSc (Hons), IRMCert
Head of Risk

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

Veronica Leigh-Hanson BA (Hons), Chartered FCIPD
Head of HR

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

Jonathan Byfield
Head of Business Development

Steve Munday CIRM
Head of Technical and Underwriting

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

Emma Cartwright FCCA, BA (Hons)
Head of Finance

Hayley Holland BA (Hons)
Head of Marketing

Corporate responsibility statement

For the year ended 31 December 2019

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 Employees

Charity
We will promote and actively work together with the charities we support in order to further their causes, good works 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 volunteering our time and skills.

Who we support

Our chosen charity partners reflect what's important to our business - having a positive impact on the health and wellbeing of those we reach. We are partnered with charities and local community-led projects;

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 2019 we supported the project by gardening, sharing our skills, donating funds for emergency fuel support, donating food parcels, and donating shoeboxes filled with gifts for the project to hand out to less fortunate children.

"It is surprising and delightful to be involved with a local business that cares so much about the people in the [surrounding] area. BHSF is a positive part of this community."

- Gerardine Giblin, Ladywood Community Project Co-ordinator

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 2019 colleagues took part in the 26-mile trek around Cannock Chase – raising over £1,500 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 Pauls Cathedral.

Sunflowers
Sunflowers is a small, Liverpool-based charity supporting people living with cancer and other long-term conditions. Sunflowers has been providing vital support to patients, survivors and carers for over 30 years. Recently, the charity has broadened its remit to also offer help to those affected by other long-term conditions besides cancer. This support includes everything from counselling and complementary therapies to exercise classes and social gatherings.

In 2019, we volunteered our time and

skills, and donated funds to contribute to the running of the charity. This helped Sunflowers provide a higher level of support to those who need it most and allowed them to concentrate their efforts on helping as many people as possible.

Bangor NI Foodbank

The Bangor NI Foodbank is based in the Ards and North Down Borough which is one of the most deprived areas across all of Northern Ireland. The foodbank provides compassionate, practical support to people in crisis to tackle the root causes that lock people into poverty and build people's resilience so they are less likely to need a foodbank in the future.

In 2019, we volunteered our time and skills, and donated funds to contribute to the running of the charity. This helped the foodbank provide a higher level of support to those who need it most.

Commenting on our partnership, Foodbank Manager Ken Scott said:

"This very generous contribution by BHSF is going to make a huge difference in terms of the level of assistance that we can provide to some of the most needy in our area. Sadly the demand for foodbank services is showing no sign of reducing and this assistance from BHSF will allow us to purchase items that are in short supply and in high demand. We will also be able to introduce new additional services such as cookery courses for our clients."

Brain & Spine Foundation

The Brain & Spine Foundation are the only UK-wide charity that provide support for every 350+ neurological disorders - affecting 12 million people in the UK. These conditions are often complex and poorly understood. The Brain and Spine Foundation are there to provide information, answer questions, inform choices and reduce anxiety.

We support them by sharing our skills and funding an additional nurse for their helpline for three years. This will help the Brain and Spine Foundation to answer more calls providing support to those who need it most.

We raised donations through a variety of activities including quizzes, plant sales, bake sales, raffles and fancy dress competitions.

In addition to supporting our partners, we sponsor the Marie Curie West Midlands Brain Game and, this year, some of our colleagues volunteered at the event to help guests and wait on tables.

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 £1,000 for Mary's Meals.

Other charities we have supported include;

- Birmingham Central Food Bank
- Macmillian
- Acorns Children's Hospice
- Children in Need

And it's not just money that is donated to these charities, over the year colleagues collectively donated over 500 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 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated 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 2019 and of the Group's surplus 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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/auditors responsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

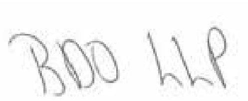
Following the recommendation of the audit committee, we were appointed by the Board of Directors to audit the financial statements for the year ending 31 December 1999 and subsequent financial periods. The period of total uninterrupted engagement is 21 years, covering the years ending 31 December 1999 to 31 December 2019.

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

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

Use of our report

This report is made solely to the 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.



John Perry (Senior Statutory Auditor)

For and on behalf of BDO LLP,
Statutory Auditor
Birmingham, United Kingdom
Date August 2020

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

Consolidated income statement

For the year ended 31 December 2019
Technical and Non-technical Accounts – General Business

TECHNICAL ACCOUNT	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
PREMIUMS					
Gross premiums written	3	**41,785**		40,126	
Outward reinsurance premiums	5	**(505)**		(434)	
		41,280		39,692	
Change in the provision for unearned premiums	25.1	**101**		35	
Earned premiums net of reinsurance			**41,381**		39,727
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT			**60**		56
CLAIMS					
Gross amount		**(30,261)**		(29,405)	
Reinsurer's share	5	**431**		325	
		(29,830)		(29,080)	
Change in the provision for outstanding claims:					
Gross amount		**(129)**		(235)	
Reinsurer's share	5	**102**		30	
		(27)		(205)	
Claims incurred net of reinsurance			**(29,857)**		(29,285)
			11,584		10,498
NET OPERATING EXPENSES	6		**(11,360)**		(11,729)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			**224**		(1,231)

NON-TECHNICAL ACCOUNT

	Note	2019 £'000	2018 £'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		**224**	(1,231)
Investment income	9	**3,388**	827
Unrealised gains/(losses) on investments		**1,193**	(1,247)
Allocated investment return transferred to the technical account		**(60)**	(56)
Investment expenses and charges		**(97)**	(108)
Other income	10	**9,082**	8,664
Other charges	11	**(13,376)**	(11,488)
Net interest cost on pension scheme liability	15	**(36)**	(23)
Past service cost	15	**-**	(476)
SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES BEFORE TAXATION	12	**318**	(5,138)
Tax (charge)/credit on surplus/(deficit) on ordinary activities	14	**(819)**	654
DEFICIT FOR THE FINANCIAL YEAR		**(501)**	(4,484)

All the above amounts relate to continuing operations.

The notes on pages 31 – 58 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Deficit for the financial year		**(501)**	(4,484)
Other Comprehensive income:			
Actuarial (losses)/gains net of deferred tax	15	**(286)**	67
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**(787)**	(4,417)

All the above amounts relate to continuing operations.

The notes on pages 31 – 58 form part of these financial statements.

Consolidated and company statements of financial position

For the year ended 31 December 2019

			GROUP			Company (number 4767689)	
ASSETS		**2019**	**2019**	2018	2018	**2019**	2018
	Note	**£'000**	**£'000**	£'000	£'000	**£'000**	£'000
INTANGIBLE ASSETS							
Goodwill	16	**120**		451		**-**	-
Other intangibles	16	**768**		246		**-**	-
			888		697	**-**	-
INVESTMENTS							
Land and buildings	17	**1,850**		2,585		**-**	-
Investment in subsidiaries	18	**-**		-		**1,554**	1,540
Investments in joint ventures	19	**100**		-			
Other financial investments	20	**18,614**		20,785		**-**	-
			20,564		23,370	**1,554**	1,540
REINSURER'S SHARE OF TECHNICAL PROVISIONS	21		**324**		222	**-**	-
DEBTORS							
Debtors arising out of direct insurance operations	22	**2,161**		2,215		**-**	-
Amounts due from group undertakings		**-**		-		**1,078**	1,282
Other debtors	23	**4,142**		3,625		**-**	-
			6,303		5,840	**1,078**	1,282
OTHER ASSETS							
Tangible fixed assets	24	**527**		610		**-**	-
Stock		**20**		13		**-**	-
Cash at bank and in hand		**5,640**		3,552		**10**	268
			6,187		4,175	**10**	268
PREPAYMENTS AND ACCRUED INCOME			**723**		442	**-**	-
TOTAL ASSETS			**34,989**		34,746	**2,642**	3,090

LIABILITIES

		GROUP				Company (number 4767689)	
	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000	2019 £'000	2018 £'000
ACCUMULATED FUND			**25,785**		26,572	**2,444**	2,851
TECHNICAL PROVISIONS	25						
Provision for unearned premiums		**364**		465		**-**	-
Provision for claims		**2,089**		1,960		**-**	-
			2,453		2,425	**-**	-
PROVISION FOR OTHER RISKS - PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS							
Pension scheme liability	15	**1,576**		1,256		**-**	-
Other provisions	26	**291**		285		**-**	-
			1,867		1,541	**-**	-
CREDITORS							
Amounts owed to group undertakings		**-**		-		**167**	208
Other creditors including taxation and social security	27	**3,199**		2,838		**-**	14
			3,199		2,838	**167**	222
ACCRUALS AND DEFERRED INCOME			**1,685**		1,370	**31**	17
TOTAL LIABILITIES			**34,989**		34,746	**2,642**	3,090
(LOSS)/PROFIT OF BHSF GROUP LIMITED SINGLE ENTITY						**(407)**	193

The notes on pages 31 – 58 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 12 August 2020.

Ian R Galer,
Group Chief Executive

Consolidated and company statements of changes in equity

For the year ended 31 December 2019

	Group Accumulated Fund £'000	Company Accumulated Fund £'000
Balance at 1 January 2018	**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 income for the financial year	(4,417)	193
Balance at 31 December 2018	**26,572**	**2,851**
Changes in equity for the year ending 31 December 2019		
Deficit for the financial year	(501)	(407)
Other comprehensive income for the financial year	(286)	-
Total comprehensive income for the financial year	(787)	(407)
Balance at 31 December 2019	**25,785**	**2,444**

All the above amounts relate to continuing operations.

The notes on pages 31 – 58 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/(Deficit) for the financial year before tax		**318**	(5,138)
Adjustments for:			
Realised gains on sale of investments	9	**(2,694)**	(91)
Depreciation and amortisation	12	**615**	627
Unrealised investment (gains)/losses		**(1,181)**	1,335
Revaluation gains on land and buildings		**(12)**	(88)
Past service cost		**-**	476
Other non-cash items of comprehensive income		**58**	344
Increase in insurance debtors		**(48)**	(364)
Increase in trade and other debtors excluding tax		**(1,400)**	(1,451)
Increase in stock		**(7)**	(8)
Increase in insurance creditors		**28**	270
Increase in trade and other creditors excluding tax and pension scheme		**492**	466
Increase in other provisions		**15**	24
Defined benefit pension contributions	14	**(60)**	(45)
Investment portfolio purchases		**(10,314)**	(6,776)
Investment portfolio sales		**13,849**	8,109
Corporation tax paid		**(127)**	(56)
NET OUTFLOW FROM OPERATING ACTIVITIES		**(468)**	(2,366)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets		**(77)**	(259)
Purchase of intangible assets		**(510)**	(60)
Purchase of Investment properties		**-**	(50)
Purchase of investment in joint venture		**(100)**	-
Disposal proceeds of investment properties		**3,102**	-
Payment of deferred consideration on past acquisitions		**-**	(175)
NET IN/(OUT)FLOW FROM INVESTING ACTIVITIES		**2,415**	(544)
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement on revolving credit facility net of arrangement fees		**-**	(302)
NET OUTFLOW FROM FINANCING ACTIVITIES		**-**	(302)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,947**	(3,212)
Cash and cash equivalents at 1 January		**4,047**	7,256
Effect of exchange rate fluctuations on cash balances		**(16)**	3
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	30	**5,978**	4,047

The notes on pages 31 – 58 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2019

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 2019. The comparative figures cover the year ended 31 December 2018.

BHSF Group Limited is a private company limited by guarantee, incorporated in England & Wales under the Companies Act. The address of the registered office is given in note 31 and the nature of the Company's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with FRS 102 and FRS 103 the Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland.

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.

The Company has taken advantage of the disclosure exemption as permitted by FRS 102 from disclosing related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member, as required by Section 33 Related Party Disclosures – paragraph 33.1A.

The Group financial statements are presented in pound sterling and rounded to thousands. The Company's functional and presentation currency is the pound sterling.

Going concern

The financial statements are prepared on a going concern basis. Subsequent to the statement of financial position date, a global pandemic was declared in respect of COVID-19. This has had far-reaching implications for daily life in the UK in the first half of 2020. As this happened after the end of the 2019 year, there are no direct impacts on these financial statements. In particular, scenario analysis conducted by the business along lines of profitability, capital adequacy, and liquidity indicate no significant concerns with the Company's ability to continue as a going concern. Additionally, from an operational perspective the investments made in new technologies during 2019 have enabled the business to react seamlessly to the application of social distancing and lockdown measures with no interruption to services. However, there are a number of areas of the Company's business which could be affected by the pandemic. The operational, underwriting, market, liquidity, and pension scheme impacts have been reviewed in depth in note 33 to the accounts.

The Directors continue to monitor the developments of COVID-19 in relation to the impact on the Company. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore the Company continues to adopt the going concern basis in preparing its financial statements.

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, all its subsidiaries and joint ventures 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 from insurance broking on the transaction of insurance business, fees receivable on invoiced employee benefits and employer-support services, and amounts receivable for occupational health and medical 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	10-15%
Computer equipment	20%
Laptops	33%
Medical equipment	15%

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 note 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.

Investments in joint ventures are accounted for using the equity method of accounting. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the joint venture. The consolidated statement of comprehensive income includes the group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the group. Any share of losses are only recognised to the extent that they do not reduce the investment balance below zero as the group has no obligations to make payments on behalf of the joint venture, and any share of subsequent profits shall be accounted for once the unrecognised profits are equal to the unrecognised losses. In the consolidated balance sheet, the interests in joint ventures are shown as the group's share of the identifiable net assets, including any unamortised premium paid on acquisition. Any unrealised profits and losses from transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture.

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.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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.

t) Dividends
Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the members.

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 20)
The financial statements include £18,276k (2018: £20,290k) 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 £7,648k (2018: £8,459k) 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 25)
The financial statements include £2,089k (2018: £1,960k) 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 materially affect the carrying value of technical provisions over the next financial year.

b) Defined benefit pension scheme liability (Note 15)
The financial statements include a net defined benefit pension scheme liability of £1,576k (2018: £1,256k), comprising assets of £13,195k (2018: £12,015k) and liabilities of £14,771k (2018: £13,271k). These liabilities represent the costs expected to be incurred in making pension payments to current or past employees who are members of the scheme.

The valuation of the pension scheme liability is determined on an actuarial basis using the projected unit method and are discounted at a rate using the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. Assumptions are also made about the mortality of the beneficiaries of the pension scheme, and future rates of inflation. The assumptions underlying this calculation are discussed in more detail in Note 15.

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

a) Investments in subsidiaries and goodwill and other intangibles (Notes 16 and 18)

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.

b) Investment property valuation (Note 17)

The financial statements include revaluation gains of £12k 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 £185k.

e) Brexit

The Company'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 20 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 end of the transition period.

f) COVID-19

Subsequent to the end of the 2019 financial year, a pandemic was declared in respect of COVID-19. As this occurred after the statement of financial position date, the primary statements and notes to the accounts are not directly impacted by this. Any impacts will arise in the financial statements for the year ending 31 December 2020. Note 33 includes further details on the potential impacts on future financial statements.

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 21.
- 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 25.
- 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 22 discloses the amounts receivable from insurance policyholders and reinsurers at the statement of financial position date. Reinsurance cover is taken out on certain policies to manage insurance risk.
- Note 25 discloses the movements in insurance technical provisions during 2019 and 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 £13k (2018: £26k).

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 £1,579k (2018: £1,158k).

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	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Before sensitivities	**318**	(5,138)	**25,785**	26,572
After applying claims ratio sensitivity				
- 5% increase in claims	**(1,175)**	(6,602)	**24,576**	25,386
- 5% decrease in claims	**1,811**	(3,673)	**26,994**	27,758
After applying expense ratio sensitivity				
- 5% increase in operating expenses	**(250)**	(5,724)	**25,325**	26,097
- 5% decrease in operating expenses	**886**	(4,551)	**26,245**	27,047
After applying one-off claims shock sensitivity				
- £1,579k additional claims (2018: £1,158k)	**(1,261)**	(6,296)	**24,506**	25,634

3. Gross premiums written

	2019 £'000	2018 £'000
Total insurance premiums	**46,761**	44,837
Less insurance premium tax	**(4,976)**	(4,711)
Gross premiums written	**41,785**	40,126

All gross premiums relate to the direct insurance business in relation to medical expenses insurance.

4. Segmental revenue analysis

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

	2019 £'000	2018 £'000
Gross written premiums:		
Underwritten insurance	**41,785**	40,126
Other income:		
Insurance broking	**505**	434
Employee benefits and employer-support services	**1,393**	1,784
Occupational health and medical services	**7,184**	6,446
Total revenue	**50,867**	48,790

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:

	2019 £'000	2018 £'000
United Kingdom	**6,716**	5,893
Republic of Ireland	**468**	553
Total occupational health revenue	**7,184**	6,446

5. Gain or loss on reinsurance relationships

	2019 £'000	2018 £'000
Premiums ceded to reinsurer	**505**	434
Claims recovered from reinsurer	**(431)**	(325)
Technical provision movement attributed to reinsurer	**(102)**	(30)
Gain/Loss on buying reinsurance	**(28)**	79

6. Net operating expenses

	2019	2018
	£'000	£'000
Business acquisition expenses	**3,081**	3,521
Business acquisition administration expenses	**1,354**	1,306
Direct insurance administration	**1,047**	1,077
IT and other general administration overheads	**4,761**	3,862
Commissions payable	**1,117**	1,963
	11,360	11,729

7. Employee costs and numbers

7A. Employee costs:

	2019	2018
	£'000	£'000
Wages and salaries	**11,188**	11,005
Social security costs	**1,235**	1,125
Pension costs	**1,571**	1,197
Redundancy costs	**205**	-
	14,199	13,327

Director's emoluments are included in the employee costs above and analysed in Note 8.

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 15.

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

Employee costs relating to direct insurance activities amounting to £5.9m (2018:£6.2m) are included in net operating expenses (note 6) and those relating to the provision of claims are included in claims £387k (2018: £528k). The remaining employee costs including the redundancy costs amounting to £7.9m (2018: £6.6m) are included in other charges (note 11).

Wages and salaries, social security and pension costs of £141k and redundancy costs of £205k are regarded as exceptional items and are disclosed in note 13.

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

	2019	2018
	Number	Number
Sales and marketing	**68**	80
Registration, claims and helpdesk	**44**	46
Management and administration	**128**	118
Occupational health practitioners	**70**	61
	310	305

8. Directors' emoluments and benefits

	2019 £'000	2018 £'000
Directors' emoluments including benefits in kind	**1,109**	1,320
Contributions to a defined contribution scheme	**155**	185
Loss of office	**99**	-
	1,363	1,505
Highest paid Director		
Remuneration	**284**	242

Loss of office costs have been included in exceptional items see note 13 split between wages and salaries and redundancy.

The above costs are also included in note 7.

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

	2019 Number	2018 Number
Defined contribution scheme	**6**	8

The highest paid director has no accrued pension or lump sum for the year (2018: nil).

9. Investment income

	2019 £'000	2018 £'000
Income from land and buildings	**-**	4
Income from other investments	**694**	732
Profit on the realisation of investments	**2,694**	91
	3,388	827

10. Other income

	2019 £'000	2018 £'000
Insurance broking	**505**	434
Employee benefits and employer-support services	**1,393**	1,784
Occupational health	**7,184**	6,446
Total revenue	**9,082**	8,664

11. Other charges

	2019 £'000	2018 £'000
Cost of sales	**6,597**	5,008
Administration expenses	**6,271**	6,002
Goodwill and other intangible assets amortisation	**488**	456
	13,356	11,466
Charitable donations	**20**	22
	13,376	11,488

Cost of sales comprises direct selling costs for the Employee Benefits and Occupational health businesses.

Administration Expenses includes wages and salaries across support functions not directly involved in the insurance business and IT, legal, consultancy and facilities costs.

Administration expenses includes consultancy fees of £128K, wages and salaries of £141K and redundancy costs of £205k which are regarded as exceptional items as disclosed in note 13.

12. Surplus on ordinary activities before taxation

	2019 £'000	2018 £'000
The surplus/(deficit) on ordinary activities before taxation is arrived at after charging the following:		
Depreciation	**127**	171
Amortisation of goodwill	**331**	349
Amortisation of other intangibles	**157**	107
Profit on disposal of property	**2,355**	-
Operating leases – buildings	**287**	272
– other	**252**	271
Commissions payable	**1,117**	1,963
Auditor's fees:		
Fees payable in respect of the audit of the Company's accounts	**14**	13
Other services provided by the Company's auditor:		
Audit fees for the Company's subsidiaries pursuant to regulation	**86**	79

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

13. Exceptional items

	2019 £'000	2018 £'000
Consultancy (note 11)	128	-
Wages and salaries (including social security and pension costs (note 7A)	141	-
Redundancy (note 7A)	205	-
	474	-

These costs relate to the transformation and restructuring activities currently being undertaken by the Group and are included in administration expenses in other charges (see note 11).

14. Taxation

14A. Analysis of charge in year

	2019 £'000	2018 £'000
Corporation tax at 19% (2018: 19%)		
Current tax charge	286	(75)
Adjustments in respect of prior periods included in current tax charge	(107)	192
Deferred tax charge/(credit)	435	(766)
Adjustments in respect of prior periods in deferred tax charge	205	(5)
Taxation charge/(credit)	819	(654)

14B. Factors affecting the tax charge for the year:

The tax assessed for the year is more (2018: more) than would be expected by multiplying the surplus on ordinary activities by the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained below:	2019 £'000	2018 £'000
Surplus/(deficit) on ordinary activities before taxation	318	(5,138)
Surplus/(deficit) on ordinary activities before taxation multiplied by the standard rate of corporation tax at 19.0% (2018: 19.0%)	60	(976)
Effects of:		
Gains and losses not subject to corporation tax	-	(26)
Expenses not deductible for tax purposes	267	329
Income not subject to corporation tax	(353)	(239)
Losses unutilised	699	-
Goodwill deduction not subject to corporation tax	73	20
Adjustments in respect of prior periods	98	219
Tax rate changes	(52)	18
Effects of other reliefs	17	-
Other differences	10	1
Total tax charge/(credit)	819	(654)

The aggregate deferred tax relating to items recognised in other comprehensive income is a credit of £58k (2018: charge of £14k).

14C. Deferred tax

The Group had deferred tax assets as follows:	2019	2018
	£'000	£'000
Fixed asset timing differences	**-**	3
Short-term timing differences - trading	**55**	698
Deferred tax asset on pension scheme liability	**268**	213
	323	914

Deferred tax assets are carried forward within other debtors.

The movement on the deferred tax asset is as follows:

	2019	2018
	£'000	£'000
As at 1 January	**914**	152
Charged to income statement	**(649)**	776
Charged to other comprehensive income	**58**	(14)
As at 31 December	**323**	914

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 £nil (2018: £3k) will reverse over the next 12 months.

The Group has deferred tax liabilities as follows:

	2019	2018
	£'000	£'000
Fixed asset timing differences	**147**	57
Investment property revaluations	**90**	189
	237	246

The deferred tax liability is carried forward within other provisions.

The movement on the deferred tax liability is as follows:

	2019	2018
	£'000	£'000
As at 1 January	**246**	257
Charged to income statement	**(9)**	(11)
As at 31 December	**237**	246

Over the next 12 months it is expected that £25k (2018: £11k) 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.

14D. Factors that may affect future tax charges

The applicable UK corporation tax rate is 19.0% for the Company (2018: 19.0%). The deferred tax rate used is 17%, being the rate substantially enacted at the balance sheet date. On 17 March 2020, post balance sheet date, the rate of corporation tax for future periods was increased to 19%. The impact of this increase would not be material to the financial statements. The impact on the asset shown gross is £36k, the impact on the net asset is £10k.

15. 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.

15A. Pension scheme impact on financial statements

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

	2019	2018
	£'000	£'000
Present value of scheme liabilities	**(14,771)**	(13,271)
Fair value of scheme assets	**13,195**	12,015
Deficit in the scheme	**(1,576)**	(1,256)

The amounts recognised in the income statement are as follows:

	2019	2018
	£'000	£'000
Interest on net liability	**(36)**	(23)
Past service cost	**-**	(476)
Total charge	**(36)**	(499)

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

The amounts recognised in other comprehensive income are as follows:

	2019	2018
	£'000	£'000
Actuarial (loss)/gain on scheme liabilities	**(1,539)**	822
Return on scheme assets less interest	**1,195**	(741)
Deferred tax credit/(charge) on actuarial adjustments	**58**	(14)
Total net actuarial gain/(loss)	**(286)**	67

There are no commitments in respect of the defined contribution scheme at the year-end (2018: 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.

15B. Pension scheme assets and liabilities

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

	2019 £'000	2018 £'000
Opening scheme liabilities	**13,271**	13,805
Interest cost	**379**	353
Past service cost	**-**	476
Actuarial loss/(gain)	**1,539**	(822)
Benefits paid	**(418)**	(541)
Closing scheme liabilities	**14,771**	13,271

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

	2019 £'000	2018 £'000
Opening fair value of scheme assets	**12,015**	12,924
Interest income on scheme assets	**343**	328
Return on scheme assets less interest	**1,195**	(741)
Contributions by employer	**60**	45
Benefits paid	**(418)**	(541)
Closing fair value of scheme assets	**13,195**	12,015

The actual return on plan assets was £1,519k (2018: £432k). 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:

	2019	2018
Equities	**57%**	56%
Bonds	**38%**	39%
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 2019, 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.

15C. Actuarial assumptions

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

	2019	2018
Discount rate	**2.10%**	2.90%
RPI Inflation	**3.20%**	3.40%
CPI inflation	**2.20%**	2.40%
LPI pension increases	**2.20%**	2.40%
Statutory increases in deferment	**3.00%**	3.00%
Mortality base table	**S2PXA YOB**	S2PXA YOB
Allowance for future improvements	**CMI 2018 1.25%**	CMI 2017 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:

	2019	2018
Longevity at age 65 for current pensioners		
Males	**21.5**	21.9
Females	**23.4**	23.9
Longevity at age 65 for future pensioners, now aged 45		
Males	**22.8**	23.3
Females	**25.0**	25.4

15D. 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	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Before sensitivities	**(787)**	(4,417)	**25,785**	26,572
Reduce discount rate by 0.5% per year (2018: 0.5% per year)	**(1,999)**	(5,488)	**24,573**	25,501
Increase inflation 0.5% per year (2018: 0.5% per year)	**(1,285)**	(4,782)	**25,287**	26,207
Add one year to life expectancies	**(1,210)**	(4,741)	**25,362**	26,248

16. Intangible assets

	Goodwill	Other Intangibles	Software	Total
	£'000	£'000	£'000	£'000
Group				
Cost:				
At 1 January 2019	8,959	300	629	**9,888**
Transfers from tangible fixed assets	-	-	52	**52**
Additions	-	-	644	**644**
Disposal	-	-	(160)	**(160)**
At 31 December 2019	**8,959**	**300**	**1,165**	**10,424**
Amortisation:				
At 1 January 2019	8,508	216	467	**9,191**
Transfers from tangible fixed assets	-	-	17	**17**
Amortisation charge for the year	331	53	104	**488**
Disposal	-	-	(160)	**(160)**
At 31 December 2019	**8,839**	**269**	**428**	**9,536**
Net book value:				
At 31 December 2019	**120**	**31**	**737**	**888**
At 31 December 2018	451	84	162	**697**

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 2019 there were no new acquisitions made by the Group.

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

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

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

Subsequent to the application of amortisation charges for the year as outlined above, an impairment review was undertaken at the year-end. Following impairment losses made in previous years, no further impairment losses were recognised in 2019.

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

17. Land and buildings

	Owner occupied freehold property	Investment property	Total
	£'000	£'000	£'000
At market value:			
At 1 January 2019	1,260	1,325	**2,585**
Disposals	-	(747)	**(747)**
Revaluation	-	12	**12**
At 31 December 2019	**1,260**	**590**	**1,850**
At cost:			
At 1 January 2019	2,103	70	**2,173**
Disposals	-	(11)	**(11)**
At 31 December 2019	**2,103**	**59**	**2,162**

18. Subsidiary undertakings

18A. Summary of all subsidiary undertakings

The activities of the subsidiary companies during 2019 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 Medical Practice Limited - provider of private primary care (GP) 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 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.

Investment in subsidiary undertakings

	£'000
Cost	
At 1 January 2019	7,777
Capital contributions	300
At 31 December 2019	8,077
Accumulated impairment provision	
At 1 January 2019	6,237
Impairment	286
At 31 December 2019	6,523
Net book value	
At 31 December 2019	1,554
At 31 December 2018	1,540

An impairment review was undertaken at the year-end. Following impairment losses made in previous years, further impairment losses were recognised in 2019.

18B. Summary of acquisitions during the year

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

19. Joint venture

	2019	2018
	£'000	£'000
Cost as at 31 December 2019	100	-
	100	-

The Group via BHSF Employee Benefits Limited entered into a joint venture agreement on 16 September 2019 to control 50 percent of the share capital of The Employee Resilience Company Limited a health and wellbeing provider incorporated in England and Wales on 21 August 2018. The remaining 50% is controlled by SME HCI Limited. The registered address is Suite 20, Foundry House, Widnes Business Park, Waterside Lane, Widnes, Cheshire, WA8 8GT.

The Group's share in the joint ventures total comprehensive income is £nil. Please see note 32 for related party transactions with The Employee Resilience Company Limited and the accounting policy page 33.

20. 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 loss 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.

20A Impact of financial instruments on financial statements

20A.1 Financial assets – statement of financial position analysis

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

	2019 Cost £'000	2019 Fair Value £'000	2018 Cost £'000	2018 Fair Value £'000
Financial asset investments held at fair value				
Corporate bonds	4,195	4,237	4,611	4,558
Equities	6,175	6,951	7,045	7,751
Government bonds	3,288	3,411	3,632	3,901
Collective investment funds	3,515	3,677	4,247	4,080
Total financial assets held at fair value through profit or loss	17,173	18,276	19,535	20,290
Cash held in investment portfolio	338	338	495	495
Total investment portfolio	17,511	18,614	20,030	20,785
Debtors held at amortised cost	6,304	6,304	5,137	5,137
Cash held outside investment portfolio	5,640	5,640	3,552	3,552
Total financial assets	29,455	30,558	28,719	29,474

All financial assets held at fair value are valued using valuations taken from the active markets in which the assets are traded on the statement of financial position date, that is all have valuations that qualify as 'level 1' 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.

Debtors held at amortised cost do not include prepayments, accrued income and deferred tax assets as these are not financial assets.

20A.2 Financial liabilities – statement of financial position analysis

The statement of financial position contains creditors totalling £4,677k (2018: £4,049k). The creditors figure does not include corporation and deferred tax liabilities as these are not financial liabilities.

Besides the provisions covered in more detail in Notes 25 and 26, and the pension scheme deficit covered in Note 15, 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.

20A.3 Financial assets – income statement analysis

	2019 £'000	2018 £'000
Financial assets measured at fair value		
Dividend and interest income from investment portfolio	693	717
Realised gains on assets held in investment portfolio	2,694	91
Unrealised gains/(losses) on assets held in investment portfolio	1,193	(1,247)
Rental income earned on investment properties	-	4
Total income/(cost) from financial assets measured at fair value	4,580	(435)
Interest earned on cash balances outside investment portfolio	1	15
Total income statement credit/(charge)	4,581	(420)
Amount recognised in technical account	60	56
Amount recognised in non-technical account	4,521	(476)
Total income statement credit/(charge)	4,581	(420)

20B. 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.

20B.1 Credit risk

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

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

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

	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Corporate bonds		**4,237**		4,558
Government bonds		**3,411**		3,901
Cash at bank or with investment managers		**5,978**		4,047
Debtors				
Current	**3,908**		3,189	
Between 1 and 3 months overdue	**1,193**		1,317	
More than 3 months overdue	**1,623**		1,047	
Total debtors before provisions	**6,724**		5,553	
Provisions against overdue balances	**(420)**		(416)	
Net debtors balance		**6,304**		5,137
Total credit risk exposure in the statement of financial position		**19,930**		17,643

The credit quality of the above assets is given in greater detail on the next page. 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 2019

	Credit quality 0 - 1 £'000	Credit quality 2 - 3 £'000	Unrated £'000	**Total £'000**
Corporate bonds	1,324	2,913	-	**4,237**
Government bonds	3,411	-	-	**3,411**
Cash at bank and with investment managers	-	5,978	-	**5,978**
Debtors	-	324	5,980	**6,304**
	4,735	**9,215**	**5,980**	**19,930**

As at 31 December 2018

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

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 £1,652k (2018: £1,173k).

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.

20B.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 £4,677k (2018: £4,049k), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £2,453k (2018: £2,425k). 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.

20B.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.

20B.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 £1,231k (2018: £1,149k) 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 £311k (2018: £288k) 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 £311k (2018: £288k) being made due to positive movements in the value of investments.

20B.3.2 Interest rate risk

Interest rate risk is the risk that asset fair values or future cash flows will fluctuate as a result of changes to interest rates. Interest rate risk affects the value of the Group's investments in corporate and government bonds, and also affects the value of pension scheme assets and long-term liabilities, thus affecting the level of the defined benefit scheme deficit in the statement of financial position. One of the key drivers of interest rate risk is the amount of time between the date on which an asset is valued and the date on which it matures. The Group's portfolio of directly-held corporate and government bonds matures as follows:

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 £828k (2018: £751k) and reduction in the accumulated fund of £671k (2018: £591k) or could result in a credit of £372k (2018: £416k) and increase in the accumulated fund of £301k (2018: £337k) according to the 31 December 2019 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.

20B.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 38.92% (2018: 32.66%) and 48.92% (2018: 42.66%), depending on the exact nature of the investment. This analysis shows that as at 31 December 2019, such a shock would result in a profit and loss charge of £3,479k (2018: £3,516k) and reduction in the accumulated fund of £2,818k (2018: £2,848k). Conversely an increase by this amount would result in a profit and loss credit of £3,479k (2018: £3,516k) and increase in the accumulated fund of £2,818k (2018: £2,848k).

20C. 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 £25,785k (2018: £26,572k). 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 2019, BHSF Group's solvency ratio was 174% (2018: 193%) (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.

21. Movement in reinsurance assets

	2019	2018
	£'000	£'000
Reinsurer's share of technical provisions brought forward	**222**	192
Technical provision movement attributed to reinsurer	**102**	30
Reinsurer's share of technical provisions carried forward	**324**	222

See note 25 showing the technical provisions net of reinsurance assets.

22. Debtors arising out of direct insurance operations

	2019	2018
	£'000	£'000
Amounts receivable from policyholders and policyholder groups	**2,161**	2,215
	2,161	2,215

23. Other debtors

	2019	2018
	£'000	£'000
Trade and other debtors	**3,819**	2,700
Corporation tax debtor	**-**	11
Deferred taxation (Note 14)	**323**	914
	4,142	3,625

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.

24. Tangible Fixed Assets

	Computer equipment £'000	Furniture and equipment £'000	**Total £'000**
Cost:			
At 1 January 2019	756	1,392	2,148
Transfers to intangible assets	(49)	(3)	(52)
Additions	18	61	79
Disposals	(397)	(144)	(541)
At 31 December 2019	**328**	**1,306**	**1,634**
Depreciation:			
At 1 January 2019	471	1,067	1,538
Transfers to intangible assets	(14)	(3)	(17)
Charge for the year	80	47	127
Disposals	(397)	(144)	(541)
At 31 December 2019	**140**	**967**	**1,107**
Net book value:			
31 December 2019	**188**	**339**	**527**
31 December 2018	285	325	610

25. Technical provisions

25.1 Unearned premiums and claims provision

	Unearned Premiums £'000	Claims £'000	**Total £'000**
As at 31 December 2018	465	1,960	2,425
Technical provisions (released)/added	364	29,211	29,575
Technical provisions utilised	(465)	(29,082)	(29,547)
At 31 December 2019	**364**	**2,089**	**2,453**

	Unearned Premiums £'000	Claims £'000	**Total £'000**
At 31 December 2017	430	1,725	2,155
Technical provisions added	465	28,194	28,659
Utilisation of technical provisions	(430)	(27,959)	(28,389)
At 31 December 2018	**465**	**1,960**	**2,425**

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.

25.2 Reconciliation of technical claims and reinsurance provisions

	Gross claims £'000	Reinsurance £'000	**Net Total £'000**
At 31 December 2018	1,960	222	1,738
Technical provisions added	29,211	527	28,684
Utilisation of technical provisions	(29,082)	(425)	(28,657)
At 31 December 2019	**2,089**	**324**	**1,765**

	Gross claims £'000	Reinsurance £'000	**Net Total £'000**
At 31 December 2017	1,725	192	1,533
Technical provisions added	28,194	138	28,056
Utilisation of technical provisions	(27,959)	(108)	(27,851)
At 31 December 2018	**1,960**	**222**	**1,738**

Of the total claims provision, it is estimated that £324k (2018: 222k) 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 (see note 21).

26. Other provisions

	Deferred Tax £'000	Other £'000	**Total £'000**
As at 31 December 2018	246	39	285
Provisions added	36	15	51
Provisions utilised	(45)	-	(45)
As at 31 December 2019	**237**	**54**	**291**

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 14.

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

27. Other creditors including taxation and social security

	2019 £'000	2018 £'000
Creditors due within one year:		
Trade and other creditors	**2,992**	2,679
Corporation tax	**207**	159
	3,199	2,838

28. Lease obligations

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

	2019 £'000	2018 £'000
Not later than one year - buildings	**153**	266
- other	**170**	169
Later than one year and not later than five years - buildings	**154**	254
- other	**151**	264
- buildings	**-**	244
	628	1,197

29. Capital commitments

The Group had commitments to make payments of £nil (2018: £86,000) during the next 12 months in respect of capital asset purchases.

30. 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.

	2019 £'000	2018 £'000
Closing cash at bank per statement of financial position	**5,640**	3,552
Cash held in investment portfolio	**338**	495
Closing cash and cash equivalents per statement of cash flows	**5,978**	4,047

31. 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.

32. Related party transactions

The Company is a company limited by guarantee. Accordingly there is no parent entity nor ultimate controlling party.

Compensation of key management personnel of the Group totalled £1,570k (2018: £1,505k).

Purchases totalling £3,162 were made by the Group from 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 £764 were made by the Group from 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.

During the year, purchases of £116k (2018: none) were made by the Group from The Employee Resilience Company, a joint venture investment (see note 19). There was no balance due to The Employee Resilience Company at either statement of financial position dates.

There were no other related party transactions other than those between members of the Company's group. All inter group balances are interest free and repayable on demand.

33. Post balance sheet events

Subsequent to the statement of financial position date, a global pandemic was declared in respect of COVID-19. This has had far-reaching implications for daily life in the UK in the first half of 2020. As this happened after the end of the 2019 year, there are no direct impacts on these financial statements. In particular, scenario analysis conducted by the business along lines of profitability, capital adequacy, and liquidity indicate no significant concerns with the Group's ability to continue as a going concern. Additionally, from an operational perspective the investments made in new technologies during 2019 have enabled the business to react seamlessly to the application of social distancing and lockdown measures with no interruption to services. However, there are a number of areas of the Group's business which have been affected by the pandemic. The operational, underwriting, market, liquidity, and pension scheme impacts have been reviewed as follows:

Operational Impacts

Over the last few years BHSF Group has invested heavily in new systems and digitalisation of its business. This enabled the business to shift to a remote working model seamlessly when 'lockdown' measures were implemented. Thus continuity of day-to-day operations to service policyholders has been preserved.

The Group employs a large travelling sales force in its employee benefits business. Though efforts have been made to shift as much work as possible to telephonic and online delivery models, there are some types of sales activity which cannot be delivered in this way.

In addition, the occupational health work undertaken is people-oriented in its nature. Though efforts have been made to shift as much work as possible to telephonic and online delivery models, there are some types of occupational health work which cannot be delivered in this way because physical examination or intervention is required.

Underwriting Impacts

Although there is operational certainty, as an insurer in the health and wellbeing sector, the Group faces a significant degree of uncertainty as to the level of claims it will have to pay as a direct result of the pandemic. In particular, a large number of the Group's health cash plan policies provide benefits to policyholders in the event they are hospitalised. Therefore significant levels of hospitalisation could result in a significant level of claims for the business in 2020.

Again, the Group is well prepared for such an eventuality. The Solvency II insurance regulations mandate a certain level of capital be maintained to cover a pandemic scenario, and as note 20 outlines, the Group has surplus capital; an overall solvency ratio (covering all capital requirements, not just pandemic risk) of 174%. Note 2c also illustrates the impact of a claims spike on the income statement and statement of financial position equivalent to that expected under a pandemic scenario. This shows that the Group would retain substantial assets in such an event.

Market Impacts

Since the pandemic emerged there has been significant volatility on financial markets where the Group places assets not required for day-to-day operations.

In particular, equity markets have suffered some of their greatest falls since the late 1980s. As outlined in note 20, the Group maintains a balanced portfolio comprising several asset classes precisely to provide some insulation from the full force of market movements in one asset type. At the end of the first quarter investment losses resulting from market movements totalled £2,180k.

Given the level of falls seen in the first quarter, it is hoped that by the end of 2020 the overall impact will be smaller than this, however there is clearly significant uncertainty around this.

Profitability Impacts

COVID-19 is likely to lead to significant reductions in revenue compared to the original expectations of the business for 2020. These may result from:

- Inability to offer certain services due to their face-to-face nature for the Occupational Health business;
- Lower requirements for occupational health work from customers who themselves have reduced activity levels, and similarly reduced staffing permanently or temporarily;
- Resistance from customers to accepting telephonic or online alternatives to face-to-face Occupational Health service deliver;
- Inability to sell new services to customers due to the removal of face-to-face sales channels for the employee benefit business;
- Lower requirements for health and wellbeing services from customers who themselves have reduced activity levels and may have reduced staffing permanently or temporarily; and
- Reduced appetite in customers for signing new contracts, move from current suppliers, or commit to additional work at a time when there is so much uncertainty

Though there are opportunities for the Group to deliver new services which directly support customers through the pandemic, the uncertain environment creates barriers for customers to procure additional services.

Though government support schemes may provide some isolation against revenue loss, these will not completely protect the business because various fixed costs will remain. In addition, there is currently uncertainty as to the length of any lockdown measures, the speed with which 'normality' will return after lockdown measures are lifted, and the extent to which government intervention may continue or be extended.

Liquidity Impacts

For many businesses, the actions taken by the Government to prevent the spread of COVID-19 have severely restricted business activity. It has also stymied consumer spending. This creates a risk of reduced cash flows across the economy.

In particular, if BHSF customers are suffering cash flow constraints they may look to pass them on to BHSF by stopping or delaying premium payments or invoices. In turn, this could create cash flow issues for the Group.

However, as the statement of financial position shows, the Group has substantial cash reserves (£5,640k). In addition, though investment markets have suffered volatility they have remained open, and all of the Group's investments are actively traded, liquid assets which could be called upon in the case of cash flow difficulties.

Pension Scheme Impacts

The defined benefit pension scheme (described in more detail in note 15) also poses a risk to the Group as a result of market movements. The scheme includes investments whose values will have decreased significantly in early 2020, while the liabilities of the scheme will also be affected by government and corporate debt interest rates. These have also been extremely volatile in the early part of 2020.

Detailed calculations of the exact scheme position require actuarial intervention and time, which in the current volatile environment means calculations are out of date as soon as they are performed. Regardless, there is a risk that the pension scheme deficit could grow significantly in 2020 as a result of market conditions.

Note 15 includes sensitivity analysis on the scheme indicating the impact that relatively modest changes to assumptions can have on scheme assets. As at 31 March 2020, the pension scheme deficit was estimated to have increased to £2,252k – an increase of £676k. Though it is hoped that by the end of 2020 market conditions will be significantly improved, there is a risk that the growth in scheme deficit could create a loss in the Group's 2020 accounts an order of magnitude higher than the movement to date or the sensitivities in note 15 suggest.

An increased scheme deficit reduces the net assets of the Group and also increases strain on cash flow as further payments are required to close the scheme deficit.

The Directors continue to monitor the developments of COVID-19 in relation to the impact on the Group. The Directors have a reasonable expectation that the Group will continue as a going concern and this is also explained in the Strategic Report and Note 1 for the adoption of the going concern basis in preparing its financial statements.

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