

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

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APPROVAL OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

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

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

We are satisfied that:

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

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

Signed on behalf of the Board by:



Ian R Galer
Group Chief Executive
6 May 2021

BHSF GROUP LIMITED

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SUMMARY

Introduction

BHSF welcomes the opportunity to be able to use this Solvency and Financial Condition Report (SFCR) to give its stakeholders an insight into the structures, policies, and procedures that are in place to ensure a high quality service and the safeguarding of the assets of the business.

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

Section A: Business and Performance

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

- 1 Insurance in the form of health cash plans, personal accident and Plan4Life cancer cover offered by BHSF Limited, a not-for-profit company founded in 1873.
- 2 Employee benefits products offered by BHSF Employee Benefits Limited. These include BHSF Connect, our app-based health and wellbeing service, and BHSF RISE, a unique case-managed suite of telephone-based assistance services covering physical and mental health, legal, and financial advice.
- 3 Occupational health services offered by BHSF Occupational Health Limited.

During the year ending 31 December 2020, the Group also offered private GP services via BHSF Medical Practice Limited, but stopped offering those services part way through the year.

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

	2020	2019
	£'000	£'000
BHSF Limited underwriting surplus	10,559	296
Net investment result	(97)	4,424
Occupational health and medical statutory loss before tax	(1,151)	(2,455)
Employee benefits statutory loss before tax	(2,014)	(1,146)
Administration costs of non-trading entities, including holding companies	(941)	(854)
Gift aid donations	(43)	(20)
Pension scheme costs	(32)	(36)
Consolidation adjustments*	90	109
Surplus on ordinary activities before taxation	6,371	318

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SUMMARY (continued)

Underwriting performance improved year-on-year by £9.2m, largely due to COVID-19 suppressing claims.

Investment values finished the year down significantly on the previous year. This is partly due to last year's results including a one-off land sale, but also result from the significant market volatility caused by COVID-19. Unrealised losses of £0.4m and realised losses of £45k were incurred. Overall the investment result was £4.5m worse than the previous year.

The occupational health and medical division saw losses decrease by £1.3m due to the completion of a period of consolidation within the division. Occupational health revenue was significantly reduced by the COVID-19 pandemic, but the division was able to enhance its efficiency, reducing losses significantly. The difficulty in gaining a foothold in the private GP market resulted in the Group closing this part of its business in early 2020.

Employee benefits losses increased by £0.9m as a result of capped commissions from BHSF Limited and slower than expected sales of the Company's own suite of products, partly resulting from COVID-19 creating a challenging sales environment.

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

Section B: Overview of Governance Arrangements and Risk Management

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

Under the overall leadership of the Chair, the Group Board is ultimately responsible for good corporate governance across the Group.

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

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

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

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

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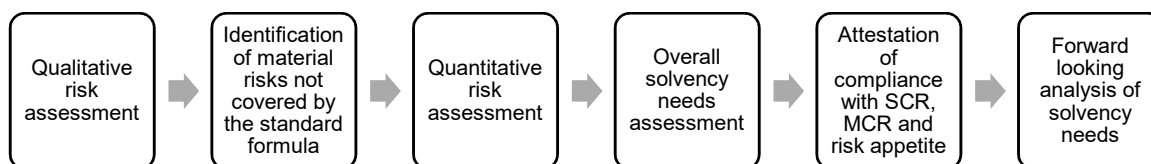
SUMMARY (continued)

Risk Management

BHSF Group operates an Enterprise Risk Management Framework (ERMF) which facilitates the identification, assessment, and prioritisation of risk(s) across all risk categories that are pertinent to BHSF Group, defined in a Group-wide Risk Universe. Control actions are then deployed, whether to minimise the likelihood and/or impact of the risk(s), or to maximise their opportunity. Quarterly reporting filters up into a number of Executive and Non-Executive Committees.

The ERMF covers all of the risks that form part of the Group's solvency capital requirement (SCR) under the Solvency II standard formula, as well as additional risk categories not covered by the formula. The Board rates its preference for the handling of each risk based on its appetite for the particular risk.

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



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

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

Internal Control System

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

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

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SUMMARY (continued)

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

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

Section C: Risk Profile

Underwriting risk

BHSF Limited, a subsidiary of the Group, is exposed to underwriting risk on the insurance products it provides; namely health cash plans, personal accident cover, and Plan4Life cancer cover. These include but are not limited to the risk that a reduction in premiums or a growth in claims result in losses to the business (premium and reserving risk) and the risk that a mass accident event or pandemic negatively affects the insurance business.

Some underwriting risks are partially offset by the use of reinsurance, and in protections built in to policy terms, such as the lack of scope for unlimited claims on any one policy.

Market risk

BHSF Limited invests in a portfolio of market-traded assets, including equities, corporate and government bonds, and collective investment funds.

This means that the Group is exposed to a number of market risks. This includes fluctuations in market prices, interest rates, property values and currency values.

The Group manages these risks through the implementation of a strict investment policy which binds our investment managers, UBS, to maintain a well-diversified and prudently-managed portfolio. BHSF regularly puts the investment manager role out for tender, ensuring the current process and strategy of the investment manager is the best suited for our needs and appetite. The Group Board's Investment Committee oversees the implementation of the investment policy and the management of the Group's investments in general.

Counterparty Default Risk (Credit Risk)

BHSF Group is exposed to Credit Risk through the provision of its services, where it is required to manage relationships with a number of counterparties, these include but are not limited to Reinsurance, Investment, Banks, and Policyholders.

Liquidity risk

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

Operational risk

The risk stemming from inadequate, unfair or failed internal processes, people and systems or from external events. For BHSF, operational risk includes: information technology/ systems/ Information Security risks; physical assets/ facilities/ Health and Safety risks;

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SUMMARY (continued)

financial crime risks; people risks; third party/outsourcer risks; process risks; legal disputes/legal change risks; and, Business Continuity (BC) and Disaster Recovery (DR) risks.

Pension scheme risk

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

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

Section D: Valuation for solvency purposes

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

The differences are summarised below:

	UK GAAP	Solvency II	Difference
	£'000	£'000	£'000
Assets	40,071	37,964	(2,107)
Liabilities	(11,770)	(11,120)	650
Net Assets	28,301	26,844	1,457

Key differences are as follows:

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

Section E: Capital Management

Section E of this report sets out the Group's solvency capital requirement (SCR), minimum capital requirement (MCR) and the level of own funds available to cover these requirements. The Group's own funds for Solvency II purposes comprise the £26,844k excess of assets over liabilities presented above. The Group SCR is £13,210k while the MCR is £3,370k. The Group therefore remains extremely solvent, having own funds equal to 203% of the SCR and 797% of the MCR.

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SECTION A: BUSINESS AND PERFORMANCE

A.1. BUSINESS DESCRIPTION

A.1.1. NAME AND LEGAL FORM

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

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

A.1.2. SUPERVISORY AUTHORITY

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

Financial Conduct Authority (FCA) regulates BHSF Group and its subsidiaries on financial conduct matters. The head office of the FCA is located at 12 Endeavour Square, London, E20 1JN.

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

A.1.3. EXTERNAL AUDITOR

The Group Board has appointed BDO LLP as the external auditor of BHSF Group Limited and all of the Group's subsidiaries, including BHSF Limited – the Group's only insurance undertaking.

The local office of the external auditors is located at 2 Snow Hill Queensway, Birmingham B4 6GA.

A.1.4. GROUP STRUCTURE

The BHSF Group comprises BHSF Group Limited and its main subsidiaries: BHSF Limited; BHSF Management Services Limited; BHSF Employee Benefits Limited; BHSF Occupational Health Limited.

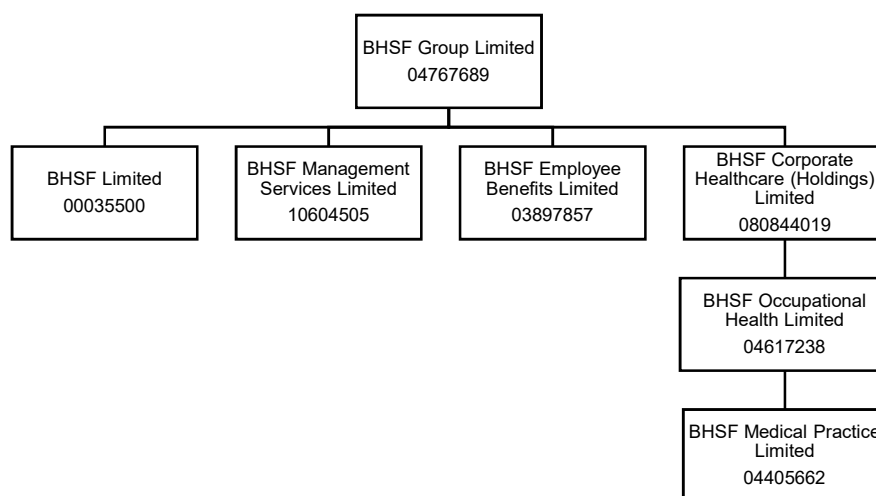
As at 31 December 2020 there were also several non-trading entities within the Group.

BHSF GROUP LIMITED

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SECTION A: BUSINESS AND PERFORMANCE (continued)



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

BHSF Management Services Limited was incorporated in England and Wales with company number 10604505 as a private limited equity company with a share capital of £100 on 7 February 2017. The Company's legal authority is the Companies Act 2006.

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

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

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

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

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

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SECTION A: BUSINESS AND PERFORMANCE (continued)

A.1.5. MATERIAL LINES OF BUSINESS

The BHSF group provides medical expense insurances, other insurances, a range of employee benefits services and occupational health services to 4,500 client businesses and 267,000 policyholders plus their families.

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

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

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

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

A.1.6. SIGNIFICANT EVENTS OVER THE REPORTING PERIOD

During the reporting period a global pandemic was declared in respect of COVID-19. Though this was noted in the previous SFCR, it is an event of such significance to all businesses that a specific section is dedicated to it. See section F for further detail.

BHSF GROUP LIMITED**SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2020****SECTION A: BUSINESS AND PERFORMANCE (continued)****A.2. UNDERWRITING PERFORMANCE**

BHSF Limited is the only entity in the Group which underwrites insurance products. Underwriting performance is shown in the technical account in the Group's Annual report and Accounts. Total earned premiums net of reinsurance were 4% below of the previous year at £39.7m (2019: £41.4m). The result on the technical account was a surplus of £9.5m (2019: £0.2m). This is due to a significant reduction in claims due to the COVID-19 pandemic. In addition, changes in sales approach for insurance products and past restructurings significantly reduced operating expenses.

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

	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Premiums				
Gross premiums written	40,314		41,785	
Outward reinsurance premiums	(489)		(505)	
Change in the provision for unearned premiums	(127)		101	
Earned premiums net of reinsurance		39,698		41,381
Allocated investment return transferred from the non-technical account		47		60
Claims				
Gross claims	21,694		30,261	
Reinsurer's share of claims	(208)		(431)	
Gross change in technical provisions	(540)		128	
Reinsurer's share of technical provisions	50		(102)	
Claims incurred net of reinsurance		20,996		29,856
Net operating expenses		8,190		11,288
Underwriting (deficit)/surplus per Annual Report and Accounts		10,559		296

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SECTION A: BUSINESS AND PERFORMANCE (continued)

A.3. INVESTMENT PERFORMANCE

Investment markets were extremely volatile throughout 2020 as a result of the COVID-19 pandemic.

Investment income, being the interest and dividends earned on the investment portfolio was down 29%, while realised losses of £45k were incurred (2019: £2.7m gain including property sales). Unrealised losses of £0.1m were incurred compared to gains of £1.2m a year earlier. Investment expenses remained comparable at £0.1m (2019: £0.1m).

The net investment result for the year was therefore significantly lower than that of the previous year – a loss of £0.1m (2019: profit of £4.4m).

Investment performance can be summarised as follows:

	2020	2019
	£'000	£'000
Investment income	492	694
Realised (losses)/gains	(45)	2,694
Unrealised (losses)/gains	(424)	1,193
Investment expenses	(73)	(97)
Investment return allocated to the technical account	(47)	(60)
Net investment result	(97)	4,424

A.4. OTHER MATERIAL INCOME AND EXPENSE

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

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SECTION A: BUSINESS AND PERFORMANCE (continued)

A.4.1. OCCUPATIONAL HEALTH AND OTHER MEDICAL INCOME AND EXPENDITURE

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

	2020	2019
	£'000	£'000
BHSF Occupational Health Limited		
Revenue	6,040	7,056
Expenditure (excluding tax)	(6,750)	(8,916)
Loss before tax	(710)	(1,860)
BHSF Medical Practice Limited		
Revenue	41	128
Expenditure (excluding tax)	(482)	(723)
Profit/(loss) before tax	(441)	(595)
Total occupational health loss before tax	(1,151)	(2,455)

During 2020 BHSF Group's providers of healthcare services comprised BHSF Occupational Health Limited and BHSF Medical Practice Limited. The division sits under a holding company, BHSF Corporate Healthcare (Holdings) Limited. The results of the holding company are not presented above because it is a non-trading entity.

BHSF Occupational Health's Revenue shrank year-on-year by 14% as a result of suppressed customer demand caused by COVID-19. However, having restructured in the previous year and invested in technologies for remote service delivery, the company significantly decreased its cost base and returned a much smaller loss of £0.7m compared to 2019's £1.9m loss. Revenue is expected to grow back to 2019 levels when pandemic conditions pass. With its lower cost base, the company is expected to be profitable in future years.

BHSF Medical Practice offered private primary healthcare services from a modern facility in Birmingham city centre. Unfortunately, despite providing excellent services, there was insufficient demand and as a result this part of the business was closed in early 2020. The results above are reflective of a very short period of trading and a number of costs associated with closing the business.

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SECTION A: BUSINESS AND PERFORMANCE (continued)

A.4.2. EMPLOYEE BENEFITS INCOME AND EXPENDITURE

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

	2020	2019
	£'000	£'000
Revenue	3,991	6,747
Expenditure	(6,005)	(7,893)
Employee Benefits profit before tax	(2,014)	(1,146)

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

Revenue decreased significantly by £2.7m from £6.7m to £4.0m as a result of the application of a cap on sales commissions from BHSF Limited and lower than expected sales of replacement product thanks to a challenging sales environment due to COVID-19. Expenditure has decreased, as a result of significant restructuring undertaken in the previous year.

A.5. ANY OTHER INFORMATION

A summary of the above results is shown on page 5 along with further items of lower materiality and the impact of intra-group eliminations which reconcile the results to the Group's Annual Report and Accounts.

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SECTION B: SYSTEM OF GOVERNANCE

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1. CORPORATE GOVERNANCE OVERVIEW

Corporate governance facilitates effective, entrepreneurial and prudent directorship, providing the overall direction, supervision and accountability of an organisation. At BHSF the governance framework consists of administrative and supervisory body (the Group Board, and operating company boards); board committees; executive committees, internal audit and risk functions, and key function holders (whose appropriate behaviour is underpinned by policies for remuneration, fit and proper, conflicts of interest and whistleblowing) who are interlinked by allocation of responsibilities and reporting lines. On an annual basis effectiveness reviews of boards and committees are carried out, and also appraisals of individual directors and executives are performed.

The Group's employees are amongst its most important stakeholders. In order to ensure that the views of the employees are taken into account in decision-making, the Group has established a Staff Forum.

BHSF Group operates an effective corporate governance framework, supported by a group-wide ERMF and internal control system.

- **The Enterprise Risk Management Framework (ERMF)** – The ERMF facilitates the identification, assessment, and prioritisation of risks followed by coordinated and proportionate application of resources to minimise, monitor, and manage the probability and/or impact of unfortunate events and maximise realisation of opportunities. The ERMF consists of a risk management strategy, risk management policies, risk management processes, and risk management reports.
- **The Internal Control System** – The internal control system facilitates the achievement of BHSF Group's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. It is designed according to the three lines of defence model and is articulated within policies for the control functions. The policies identify the responsibilities, reporting lines, activities and approach taken for each of the control functions. Its ongoing effectiveness is reviewed by Internal Audit and monitored by the Audit Committee.

B.1.2. COMPANY FORM AND RULES

Directors must act in accordance with the articles of association, and Companies Act requirements.

Records of the articles of association are maintained by the Group Company Secretarial Manager and are filed with Companies House.

BHSF Group maintains statutory registers for every Group company which includes incorporation documents and articles of association. Each company is obliged to update these registers and advise Companies House if there is a change to the statutory register.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.1.3. BOARD RESPONSIBILITIES

The Group Board acts as the sole member (i.e. owner) of the operating companies. As such the Group Board's role in corporate governance is to appoint the directors and the auditors of the Group, to satisfy itself that an appropriate governance structure is in place for each of the operating companies, and to agree by open or written resolution material transactions requiring BHSF Group investment or capital injection.

BHSF Group Board has established operating company boards for BHSF Limited, BHSF Employee Benefits Limited, BHSF Management Services, and BHSF Occupational Health Limited to oversee the direction and the control of the individual operating companies in accordance with their articles of association. The board of directors for each operating company is responsible for the governance of that company and any of its own trading or non-trading subsidiaries.

BHSF Group Limited and its operating companies have determined to implement shared control functions and implement a consistent ERMF and internal control system. This means the Group Board is ultimately responsible for:

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

The directors of the operating companies are responsible for the management of the operating companies' businesses, for which purpose they may exercise all the powers of the company.

However, the operating company boards are legally bound to serve in the best interests of the sole member (BHSF Group Limited). This is called its fiduciary duty. The directors of the operating boards are responsible for reporting to the Group Board on their stewardship of the business.

The BHSF Group governance arrangements are applied across all subsidiaries. The operating companies' boards have responsibility for oversight of the adoption of the Group Board's policies, ERMF and internal control system, requesting exemptions or additions as appropriate to ensure good corporate governance within the operating company and in order to safeguard the assets or other significant specific interests of their subsidiary.

The operating companies' boards are ultimately responsible for the setting of the operating companies' strategic aims and providing the leadership to put them into effect recognising the constraint that resources for initiatives (that is capital injections) are at the discretion of

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SECTION B: SYSTEM OF GOVERNANCE (continued)

the Group Board and therefore that all material transactions require Group Board approval. The Group Board may, by special resolution, direct the operating company directors to take, or refrain from taking a specified action (shareholders' reserve power).

The operating company boards have delegated day-to-day management to the Executive Committee. This does not remove any of the responsibilities of these boards as set out above.

B.1.4. BOARD COMMITTEES

To assist the board of directors of BHSF Group Limited and the operating companies with their duties the Group Board has established several shared committees. These comprise independent non-executive directors and executive directors in line with corporate governance best practice guidelines. The committees ensure independent oversight and challenge and support the operational efficiency of the board. The responsibilities of the committees and membership restrictions are shown in the figure below.

Remunerations and Nominations Committee
The Committee is responsible for overseeing the remuneration and nomination arrangements of the Chair, executive directors and senior management with regulatory functions. It is also responsible for promoting the health and wellbeing of BHSF staff and the embedding of the Group's culture and values. The Committee ensures that each board retains an appropriate balance of skills to support the strategic objectives of the BHSF Group and that an effective framework for senior succession planning is in place.
Investment Committee
The Committee recommends the investment strategy and policy for approval by the BHSF Limited operating board. The Investment Committee oversees the performance of the investment managers, monitors fund performance and oversees compliance with the prudent investment principles.
Audit Committee
The Committee monitors the integrity of the BHSF Group's financial reporting, including the effectiveness, appropriateness and completeness of the internal control system, and the appointment and effectiveness of internal and external auditors.
Risk and Compliance Committee
The Committee oversees the overall risk strategy, the ERMF, and the risk management policies. The Committee will monitor the Group's risk profile against appetite, escalating to the Group Board where required. It oversees BHSF Group's management of emerging risks and the own risk and solvency assessment policy and results. In addition, the Committee oversees the Compliance strategy, the reporting of Conduct Risk; i.e. complaints, and the Compliance Framework.
Executive Committee
The Committee directs the business on day-to-day operational matters while also overseeing the lower-level implementation by the business of strategic direction given by the Group and operating boards.
Strategic Implementation and Oversight Board
The Strategic Implementation and Oversight Board is a committee of the Group Board set up to oversee and drive forward a significant programme of ongoing strategic development across the Group.

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With the exception of the Executive Committee and the Strategic Implementation and Oversight Board, the above committees are made up entirely of independent non-executive directors. Where they are not members of the committees, relevant executive directors and senior managers attend committee meetings where appropriate.

B.1.5. ROLE OF THE BOARD IN PRODUCTION OF STATUTORY AND REGULATORY DISCLOSURES

Company law requires the directors to prepare financial statements and supplementary information for each financial year in accordance with applicable law and regulations and in accordance with UK Generally Accepted Accounting Practice (FRS 102 and FRS 103). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period

In preparing these financial statements the directors are required to:

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

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

Waivers have been obtained which exempt BHSF Limited from the need to prepare a solo ORSA or SFCR.

BHSF Group is required to make disclosures to the public and to the regulators on a regular basis. All disclosures are subject to Audit Committee review and Group Board approval prior to publishing. The Board sets its approach to corporate reporting and disclosure within its board reporting and disclosure policy. In particular it sets out its approach to ensure complete, reliable, clear, consistent, timely and relevant information concerning the business activities.

B.1.6. CORPORATE GOVERNANCE DIVISION OF RESPONSIBILITIES

B.1.6.1. SUMMARY

In line with the Corporate Governance Code¹ there is a clear division of responsibilities between the running of the Board and the executive responsibility for running the Group's business. No one individual has unfettered powers of decision. For BHSF Group this is

¹ Note that BHSF Group is not required to follow a specific corporate governance code, but does aim to implement corporate governance best practice in a proportionate way. Therefore, we will occasionally refer to the UK Corporate Governance Code or other best practice framework as appropriate.

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articulated through the responsibilities of the Chair of the Group Board and the responsibilities of the Group Chief Executive.

B.1.6.2. CHAIR OF THE BOARD

The Chair of the Board is an independent appointment and is responsible for the leadership and effectiveness of the board of BHSF Group Limited and each of its subsidiary companies.

The Chair promotes a culture of openness and debate and fosters constructive relations between executive and independent non-executive directors. The Chair ensures that all board members receive accurate, timely and clear information and meeting attendees have sufficient time to discuss all agenda items.

B.1.6.3. GROUP CHIEF EXECUTIVE

The Group Chief Executive is responsible for the day-to-day management of the business, in line with the strategy and objectives approved by the Group Board, for the development of strategic proposals and the implementation of the Board's strategic decisions.

The Group Chief Executive may make decisions in all matters affecting the operations, performance and strategy of the Group's businesses, with the exception of those matters reserved to the board or specifically delegated by the Board to its committees, or subsidiary company boards.

The Group Chief Executive ensures that the Board is kept informed of all key issues and ensures that all strategic decisions, and their risks, are analysed appropriately.

B.1.6.4. EXECUTIVE DIRECTORS

An executive director is a member of the Board who also has management responsibilities as allocated by the Group Chief Executive.

B.1.6.5. INDEPENDENT NON-EXECUTIVE DIRECTORS

These are directors without management responsibility.

Independent non-executive directors provide challenge to the executive leadership team, ensuring that strategies are well thought-out and the business is being run responsibly. In addition, they are responsible for reviewing the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. Independent non-executive directors ensure the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

B.1.6.6. SENIOR INDEPENDENT DIRECTOR

The Group Board has appointed one of the independent non-executive directors to be the Senior Independent Director (SID).

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The SID acts as a Deputy Chair, providing support and assistance to the Chair as required and acts as an intermediary for other directors where necessary.

The SID is available to other directors or any other stakeholder who has concerns and observations which have not been adequately dealt with through the normal channels of Group Chief Executive or Chief Finance Officer. The SID also acts as a confidential point of contact for 'whistle-blowers' within BHSF.

B.1.6.7. BOARD COMMITTEE CHAIRS

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

B.1.7. REPORTING LINES

The Group Chief Executive reports directly to the BHSF Group Board and executive directors report directly to the Group Chief Executive. Senior management are accountable to their respective operating company boards.

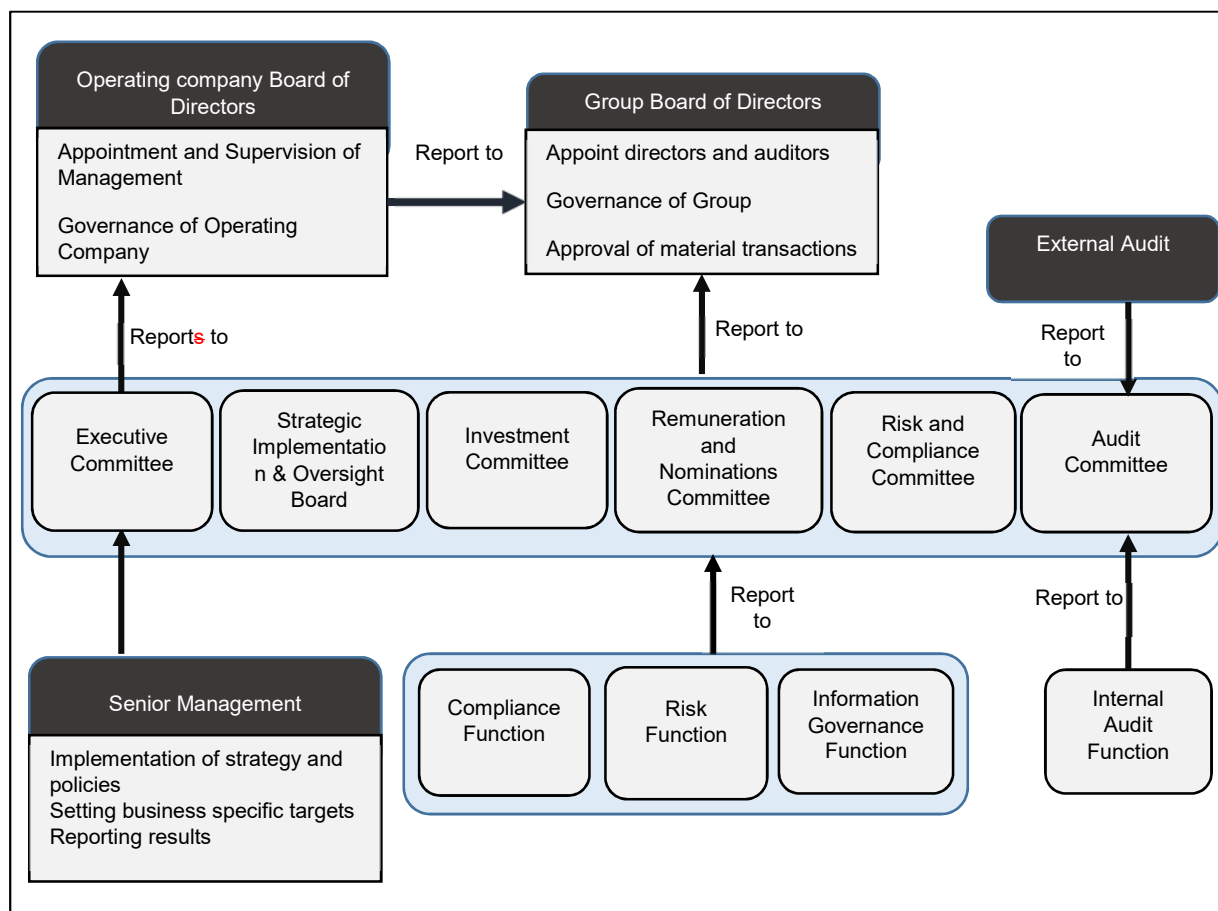
BHSF Group incorporates the control functions (risk, compliance, information governance, internal audit) and the associated reporting lines into the organisational structure in a way which ensures that each function is free from influences that may compromise the function's ability to undertake its duties in an objective, fair and independent manner. Each function operates under the ultimate responsibility of, and reports to the Group Board. Each individual performing a function reports any major problem in their area of responsibility to the Group Board.

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B.1.8. ALLOCATION OF FUNCTIONS

The Group Board is responsible for overseeing the allocation of key functions according to the Senior Manager and Certification Regime regulation (SMCR). This includes the allocations of key functions for independent non-executive directors and executive directors and senior management in key functions.

The Group Board is required to maintain a register of directors and a register of people with significant control (Companies Act). The PRA has defined individuals with significant control to include senior management function, FCA function, control functions and any individual responsible for a regulated activity as defined within the SMCR. The register contains responsibilities/ accountabilities of the function, individual allocated, a description of the individual's experience, knowledge and skills as aligned to the responsibilities of that function. Any proposed changes to the register must be notified and approved by the Group Board and the PRA.

B.1.9. BOARD REMUNERATION POLICY

B.1.9.1. REMUNERATION POLICY

BHSF Group maintains a remuneration policy. The remuneration policy applies to all key persons - that is persons who can significantly influence the decision making of BHSF Group.

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This includes non-executives; executives; Senior Manager Function holders with PRA supervisory pre-approval; Key Function Holders reported to the PRA (including risk, compliance, audit, company secretariat and finance), commission-earning sales staff and material risk takers.

Material risk takers are those individuals who make material risk decisions which have been defined to be:

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

The objectives of the remuneration policy are:

- a) To promote sound and effective risk management and not encourage excessive risk-taking
- b) To promote employee behaviour and performance that is in line with the long-term interests of the business

B.1.9.2. EXECUTIVE AND SENIOR MANAGEMENT REMUNERATION

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

Fixed benefits	
Salary	The Remuneration and Nomination Committee annually reviews terms of employment of executive directors, senior managers and key function holders who are PRA/FCA approved, considering factors such as: <ul style="list-style-type: none">• Salary increases for all employees• The performance and experience of the employee• Group or division performance• Internal relativities• Economic factors such as inflation• Benchmarking of employee package against similar industry roles
Benefits	Executives and Senior Managers are offered benefits which are benchmarked against others in comparable positions in similar undertakings, including: <ul style="list-style-type: none">• Car allowance• Health and wellness benefits• Life assurance benefits
Provision for retirement income	Executives and Senior Managers are offered the option to receive payments into a defined contribution scheme. The Group makes a contribution provided the employee contributes at least 3%
Variable benefits	
Annual bonus/ short term incentive scheme	Few members of the senior team have performance bonuses tied to sales performance. There is regular scrutiny to ensure that the bonus does not promote risk-taking behaviour that falls outside of the Group

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	risk appetite, or behaviours which are not aligned with BHSF's culture and values.
	All Executives and Senior Managers together with all other staff may receive an amount of profit share or other bonus. Any such amounts are discretionary and based on the Group's operating performance.
Long term incentive scheme	There is currently no long term incentive scheme in place.

Termination Payments

Termination payments	Any termination payment is initially considered by the Group Chief Executive up to delegated authority limits. Amounts above the delegated authority limits are referred to the Group Board.
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The level and timing of these benefits is controlled to ensure that excessive risk taking is not encouraged.

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

Processes and controls

Performance management	Performance of Executive Directors is reviewed against objectives during regular one-to-one meetings with the Group Chief Executive. Performance of senior managers is reviewed against objectives during regular one-to-one meetings with the Executive Directors to whom they report.
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Below senior management level, objectives are set on a regular basis through continuous feedback mechanisms, which cover both performance and behaviours.

Variable pay limits	Variable payments are only provided to sales-based employees within BHSF Employee Benefits Limited.
Deferred element of variable benefits	None of the variable payments are made on a deferred basis but the Remuneration and Nomination Committee considers all bonus schemes each year to determine whether any deferment is required.
Independent setting of remuneration elements	Executive remuneration is determined by the independent non-executive directors who sit on the Remuneration and Nomination Committee and they take into account performance and benchmarks against others in comparable positions in similar undertakings.
Remuneration review	Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each division's salary increase budget is set with reference to local market conditions.

B.1.9.3. INDEPENDENT NON-EXECUTIVE DIRECTORS AND THE CHAIR'S REMUNERATION

Independent non-executive directors' benefits

Fees	All independent non-executives receive a basic fee for their duties as a Group Board member. Additional fees are paid for added
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responsibilities such as chairing or being a member of committees. If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable. Fees are reviewed annually and are determined by the executive directors and the Chairman.

Chair

Fees	The Chair receives an annual fee for the performance of the role. On appointment, the fee may be fixed for a specified period of time. Fees will otherwise be reviewed annually by the Remuneration and Nomination Committee.
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The level and timing of these benefits is controlled to ensure that excessive risk taking is not encouraged.

B.1.9.4. SALES STAFF

Sales Staff

Performance related benefits	Sales staff are paid a salary and performance bonuses to reflect their effort and success. The ratio of performance-related pay to salary is kept under regular review to ensure that, while success is rewarded, the earnings proportions remain reasonable. No-one is rewarded for risky behaviour or behaviour contrary to BHSF culture or values, or sitting outside of Group risk appetite. The quality of sales, as measured by persistency statistics, is a factor. If a new policy lapses within three months then no commission is paid to the sales staff.
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B.1.10. SIGNIFICANT CHANGES TO THE GOVERNANCE SYSTEM OVER THE REPORTING PERIOD

BHSF Group has continued to develop corporate governance over the reporting period but no significant changes have been made to the governance framework.

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B.2. COMPLIANCE WITH FIT AND PROPER REQUIREMENTS

B.2.1. FIT AND PROPER POLICY

BHSF Group maintains a fit and proper policy which applies to all key persons – that is persons who can significantly influence the decision making of BHSF Group. This includes independent non-executive directors, executive directors, senior manager function holders with PRA supervisory pre-approval and significant influence functions holders, key function holders (including risk, compliance, audit, company secretariat and finance); and material risk-takers.

The objectives of the fit and proper policy are:

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

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

B.2.1.1. EMPLOYEES OF THE GROUP

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

Processes and controls	
Role description	For all existing and new key person roles, a role description document exists which provides a description of the role. This includes a description of the duties, reporting lines, key outputs of the role, interactions within the business and the fit of the role within the organisational structure.
Person specification	For all existing and new key person roles, a person specification exists which provides a description of the skills, knowledge, qualifications, experience and personal qualities that are both essential and desirable for the role. This includes, where relevant, the insurance, financial, accounting, actuarial and management skills of the person that are required to perform the role.
Vetting procedures	For all new appointments vetting is undertaken, this includes interviewing, taking up references, review of original qualification documentation and DBS checks. Senior management positions and above are subject to psychometric testing.
Group Chief Executive approval of senior management appointment	For all new appointments, or internal transfers into senior management position (excluding key persons), a candidate must be approved by the Group Chief Executive prior to an offer being made. The Group Board is notified of any new appointments or internal transfers into senior management positions.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

Processes and controls	
Group Board approval of board appointments	The Remuneration and Nomination Committee reviews all Board and regulatory function candidates and makes recommendations for approval to the Group Board. A candidate must be approved by the Group Board before an offer is made.
Regulatory notification	For all new appointments, or internal transfers into roles that require PRA/ FCA approval the Group submits an application to the PRA/ FCA disclosing all information in relation to the candidate's fitness and propriety. The Group discloses any additional information if it comes to light during the application process. All appointments which require PRA/FCA approval are conditional upon PRA/FCA acceptance of the fitness and propriety of the candidate. The Group will notify their supervisory authority if any of the key persons have been replaced because they no longer fulfil the fit and proper requirements.
Independent non-executive directors oversight	Independent non-executive directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. Independent non-executive directors have a prime role in appointing and, where necessary, removing executive directors, and in succession planning. Where directors have concerns which cannot be resolved about the running of the Group or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, an independent non-executive director should provide a written statement to the Chair, for circulation to the board, if they have any such concerns.

B.2.1.2. INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Processes and controls	
Chair of board responsibilities description	A description of the responsibilities for the Chair of the board are documented. This provides a description of the duties, personal attributes and interactions required from the Chair.
Election of Chair and any Deputy-Chair	The Board of BHSF Group Limited shall decide which independent non-executive director will be Chair and which will be Deputy-Chair (if any) of each Group company, and of each Board committee. The Chair and the Deputy-Chair must be independent non-executive directors. At any board meeting at which the Chair is not present or not able to act, the board of the company concerned may appoint a Chair pro-tempore from among the members of the board; an executive director may only be appointed if no independent non-executive director is able to act, subject to the meeting being quorate.

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Processes and controls	
Independence of independent non-executive directors	<p>For each independent non-executive the Group Board determines whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director’s judgement. This considers at a minimum if the appointee:</p> <ul style="list-style-type: none"> (i) has been an employee of any company within the Group within the last five years (ii) has, or has had within the last three years, a material business relationship with any group company either directly, or as director or senior employee of a body that has such a relationship (iii) has received or receives additional remuneration from any group company apart from a director’s fee, participates in the performance related pay scheme, or is a member of the Group’s pension scheme (iv) has close family ties with any of the Group’s advisers, directors or senior employees (v) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies (vi) has served on the Group Board for more than nine years from the date of their first election.
Appointment of new independent non-executive directors	<p>Appointments are made, on merit, against objective criteria (e.g. filling a skills gap on the Board) and, where appropriate, to objective regulatory criteria, and with due regard for the benefits of diversity on the Board.</p> <p>For each new independent non-executive appointment a vetting process is undertaken. This includes an assessment of whether the individual has the necessary skills, qualification, knowledge and experience to fulfil their individual independent non-executive role and ensure the Group is overseen in a professional manner. An assessment of whether a person is proper is undertaken, prior to a new appointment. This includes an assessment of that person’s honesty and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects relevant for the purposes of the assessment.</p> <p>All new appointments receive induction on joining the Group Board and should regularly update and refresh their skills and knowledge.</p>
Board diversity	<p>BHSF Group recognises that the Group Board’s composition and balance supports the business in delivering sustainable long-term value. This means ensuring that BHSF Group’s board has the diverse skill sets, knowledge and experience, and ensuring that succession planning is supported by a strong bench with a depth of talent. Alongside this it means ensuring that the board has appropriate independence to carry out its duties and responsibilities effectively and</p>

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Processes and controls	
	<p>that no individual or small group of individuals can dominate the Group Board's decision taking.</p> <p>The Remuneration and Nomination Committee periodically evaluates the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.</p> <p>BHSF Group recognises that the Group Board should be of sufficient size that the requirements of the business can be met. BHSF Group ensures that changes to the Group Board's composition, and that of its committees, can be managed without undue disruption, and should not be so large as to be unwieldy.</p>
Annual evaluation of board performance	<p>The Group Board undertakes a formal evaluation of its own performance on an annual basis and also conducts a rigorous independent evaluation every three years. This is supported by a self-assessment of performance by the Group Board's committees, an assessment of the individual executive directors undertaken by the Group Chief Executive, and an assessment of the individual independent non-executive directors undertaken by the Chair of the Group Board. The Chair is assessed annually by the Senior Independent Director. The Group Chief Executive is assessed by the Chair, with input from other directors.</p>
Re-election of directors and terms of appointment	<p>Independent non-executive directors are appointed for specified terms subject to re-appointment and to statutory provisions relating to the removal of a director.</p> <p>Independent non-executive directors are submitted for re-election at regular intervals, subject to continued satisfactory performance. Any term beyond six years for an independent non-executive director should be subject annually to particularly rigorous review, and should take into account the need for progressive refreshing of the board.</p>

B.2.1.3. KEY FUNCTIONS

Role	Key Senior Manager Regime Function	Responsibilities
Chief Executive Officer <i>Ian Galer</i>	Group Entity Senior Manager	The Chief Executive Officer has responsibility, under the authority of the Group Board, alone or jointly with others, for carrying out the management of the conduct of the whole of the business of BHSF Group.
Chief Finance Officer	Chief Finance Function Chief Actuarial Function	The Chief Finance Officer has responsibility for the management of the

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Role	Key Senior Manager Regime Function	Responsibilities
Tom Ross	Group Entity Senior Manager Executive Director	financial resources of BHSF Group and reporting to the boards in relation to financial affairs.
Chief Operations Officer Geoff Guerin	Chief Executive Executive Director Group Entity Senior Manager Responsible for Insurance Distribution	The Chief Operations Officer has responsibility for the management of the operating companies within profit and loss targets and risk appetite tolerances.
Chief Medical Officer Philip McCrea		The Chief Medical Officer is responsible for the clinical management of BHSF Occupational Health Limited.
Head of Technical & Underwriting Steve Munday	Chief Underwriting Function	Key accountabilities include the underwriting of the medical expense insurance business including health cash plans, personal accident insurance and the personal cancer plans. This includes making underwriting decisions
Head of Risk Adam Lea	Chief Risk Function	The Head of Risk has responsibility for the overall Enterprise Risk Management Framework (ERMF).
Head of Compliance Louise Eden	Compliance Oversight Function	The Head of Compliance has responsibility for ensuring that BHSF Group has complied with the obligation to satisfy itself that persons performing a key function are fit and proper.
Head of Internal Audit	Head of Internal Audit	Internal Audit is provided by an external provider of internal audit services, RSM, and it is responsible for the establishment, implementation and maintenance of an audit plan issuing recommendations based on the internal audit activities, and monitoring compliance with any recommendations agreed by the Group Board.

Non-Executive Directors	Senior Insurance Manager Regime key functions
Sara Fowler	Chair
Caroline Coates	Chair of Risk and Compliance Committee Chair of Investment Committee
Gary Cowdrill	Chair of Audit Committee

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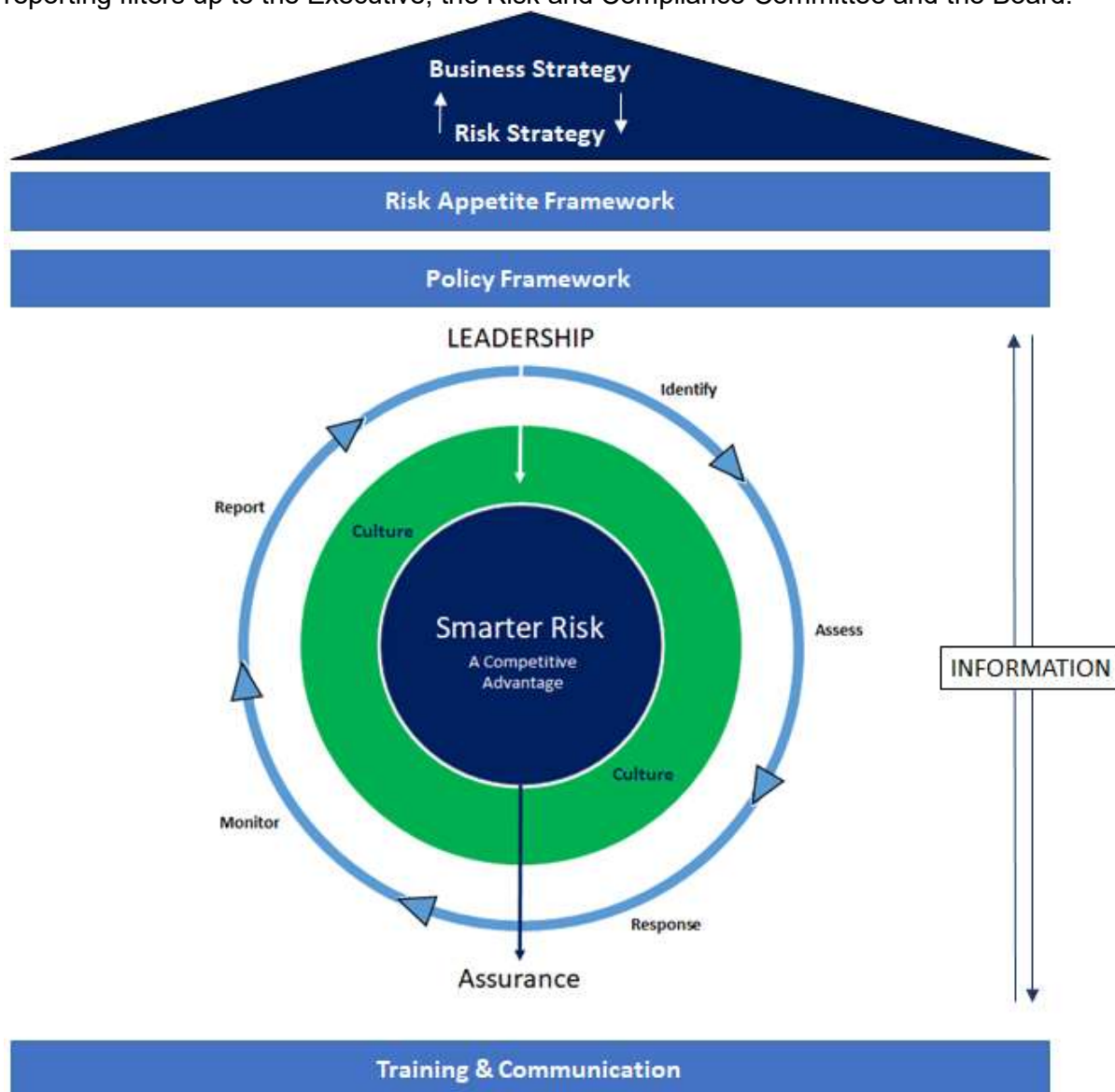
Chris Wiggin	Chair of Remuneration and Nominations Committee
Gary Cowdrill	Senior Independent Director

B.3. ENTERPRISE RISK MANAGEMENT FRAMEWORK (ERMF)

B.3.1. OVERVIEW OF ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Corporate Governance framework is supported by an Enterprise Risk Management Framework (ERMF), utilising the key elements of Enterprise Risk Management (ERM) and ensuring adherence to Solvency II.

The ERMF facilitates the identification, assessment, and prioritisation of risk(s) across all risk categories that are pertinent to BHSF Group, defined in a Group-wide Risk Universe. Further to this, a chosen suite of control actions, whether to minimise the likelihood and/or impact of the risk(s) or to maximise their opportunity, are then deployed and monitored. Quarterly reporting filters up to the Executive, the Risk and Compliance Committee and the Board.



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B.3.2. RISK MANAGEMENT STRATEGY

B.3.2.1. GROUP BOARD RISK APPETITE STATEMENT

The risk appetite statement is set by the Group Board and provides the overall level and type of risk the Board is willing to take (or not take) in pursuit of the business strategy. This is considered at individual risk level and in aggregate. The risk appetite is implemented through the ERMF and the ongoing embedding of risk appetite and a risk-aware culture within the Group.

B.3.2.2. RISK PREFERENCES AND ATTITUDES

The risk appetite statement is implemented through the selection of risks the Group Board accepts. At a high level, the Group Board defines whether it will accept the risk, reject the risk or determine to transfer the risk.

For each risk the Group Board is willing to accept, risk attitudes are defined, and range from being risk-seeking to risk-averse. Thus, they provide the direction of risk exposure over the planning horizon and assist in the Forward Looking Assessment of Own Risk (FLAOR).

B.3.2.3. RISK TOLERANCES

Once the risk preferences and attitudes have been defined for the accepted risks, risk tolerances are defined for parameters that determine the exposure to risks (risks that are rejected will not have any tolerances associated, for obvious reasons). Risk tolerances provide boundaries to the exposure of risk the Group Board is willing to take and are monitored on a regular basis. The monitoring against risk tolerances enables action to be taken when potentially too much or too little risk is taken.

B.3.3. RISK MANAGEMENT POLICIES

BHSF Group has established risk management policies covering the risks to which the Group is exposed. These include the regulated (Solvency II) risks, amongst others:

- a) Capital management and dividends policy
- b) Liquidity policy
- c) Insurance/ underwriting risk policy
- d) Market/ investment risk policy
- e) Credit/ counterparty default risk policy
- f) Operational risk policy

These risk management policy documents articulate the principles and practices for the management of risks including: an articulation of objectives; reporting procedures; roles and responsibilities; processes and key controls in a manner that is consistent with the business strategy.

B.3.4. RISK MANAGEMENT PROCESSES

The risk management lifecycle consists of processes for risk identification, risk and solvency assessment, risk response, risk monitoring, risk reporting and disclosure, and decision making. Emerging risk can also be identified through the risk management lifecycle but will deviate to an alternative process thereafter.



B.3.4.1. EMERGING RISK IDENTIFICATION PROCESS

BHSF Group uses the Lloyds of London definition of Emerging Risk². Identification of emerging risk(s) involves consideration of factors that are both internal and external to an organisation, referred to as the internal and/or external context, further defined in ISO31000 and COSO ERM.

Each half-year, the Risk Function will facilitate an Emerging Risk Forum, attended by multiple stakeholders throughout the Group. The forum will aim to discuss and articulate various emerging risks / trends that are known to them and their subject matter expertise. The information from the forum is then translated into a suite of emerging risks, which are plotted and tracked against a Group SWOT analysis.

B.3.4.2. RISK MONITORING

Risk monitoring is undertaken through the risk assessment process. For each risk / risk category, risk tolerances are defined and a dashboard of risk status versus tolerance used. Risks are plotted against the Heat map, and reassessed every quarter, where any movement is tracked and a rationale of findings provided. These elements are consolidated into a concise risk reporting suite, ensuring the various committees and Group Board are kept apprised of the Group's risk profile.

² An issue that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.3.4.3. RISK RESPONSE

BHSF Group has in place discrete processes for handling risk events or incidents (risks that have materialised) and robustly defined processes for managing catastrophic events. Business continuity planning ensures the reasonable continuation of services to customers in the occurrence of a catastrophic operational event. COVID-19 pandemic aside, the Group's business continuity plan had been tested prior to the pandemic and any lessons learned were progressed into actionable improvements. The Group has since been operating in a state of business continuity (owing to the pandemic) for the past twelve months.

B.3.4.4. RISK REPORTING AND DISCLOSURES

In accordance with regulatory requirements BHSF Group annually produces an Own Risk and Solvency Assessment (ORSA) disclosure for the regulator. In addition to this, on a quarterly basis, BHSF Group produces an internal quarterly risk report providing an overview of the Group's risk profile and granular dissection of key risk topics, including aggregation, to both Executive and Non-Executive Directors.

B.3.4.5. DECISION MAKING

Key decisions for the business are made in line with the stated Group Board's risk management strategy. This means that key decisions should not cause a breach to any of the defined risk tolerances.

BHSF Group has identified the following as key decisional types (these are decisions that may materially affect the risk profile of BHSF Group):

- Investment strategy;
- Significant new product developments;
- Business planning; and
- Acquisition.

For significant decisions, outside of Group Board approved delegated authority limits, risk assessment is undertaken to establish the possible implications of the proposal in terms of solvency position and overall risk status.

- Quantitative analysis: Determine the implications on solvency and cash flow position. This will use the standard formula model based upon various scenarios for the proposal over a projected period.
- Qualitative analysis: Determine the overall impact on the risk profile of the undertaking. This will use the risk universe as a basis and provide a qualitative assessment of the impact.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.4. OWN RISK ASSESSMENT

B.4.1. ORSA PROCESS

The ORSA process is used to assess the risk profile and capital resource (solvency) requirement of the business.

It consists of the following activities:

- (a) Qualitative risk assessment
- (b) Identification of material risks not covered by the standard formula
- (c) Quantitative risk assessment of all material risks
- (d) Current overall solvency needs assessment
- (e) Attestation of solvency compliance, and
- (f) Forward looking analysis of solvency compliance

In line with regulatory requirement, the full ORSA process is carried out annually in line with business planning activity but the underlying risk assessment processes are continuous throughout the year and capital adequacy is considered at least quarterly as well as 'on demand' to support significant decisions.

B.4.1.1. METHODOLOGY FOR DETERMINING OWN SOLVENCY NEEDS

BHSF Group maintains a risk universe which provides a categorisation of risks that are pertinent to the Group regardless of their materiality. This includes all the risk categories defined by the regulator and additional non-regulated risks. Qualitative risk assessment is carried out quarterly, with consideration given to both the internal and/or external context.

The qualitative risk assessment informs the identification of pertinent risk categories that are not covered or defined by the regulator and therefore have no regulatory method defined for calculating the exposure (the standard formula). A risk rating is applied to each identified risk, which is filtered by risk category and sub-category, linked with the risk universe. The risk rating is linked to a scoring scheme, rating the risks against materiality, thus defining which risks are considered business-material.

All risks identified as material are then quantitatively assessed. If the risk category is included in the regulators model (the standard formula), then the stress defined within the standard formula is used to conduct the assessment. For material risks not included in the standard formula, a stress has been defined on a 1 in 200 year basis.

The overall solvency needs assessment is undertaken by applying a correlation matrix that includes both risks within the standard formula and the other material risks.

B.4.2. ORSA GOVERNANCE

The Group Board, through the Risk and Compliance Committee, is ultimately responsible for the oversight of the ORSA. This includes the approval of the ORSA policy, the ORSA Internal Report, and the ORSA disclosure.

The Group Board steers how the assessment is to be performed and challenges the results. In order to meet its oversight responsibilities, the Risk and Compliance Committee reviews some key reports as shown in the table below.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

Report Title	Report Description
Quarterly risk report	A report that provides information on the risk profile of BHSF, it highlights changes in risk status / emerging risks and provides an assessment of the current materiality of the risk.
Internal ORSA report	Results and conclusions of the ORSA activity, including an annualised risk report. This forms the ORSA disclosure, one released to the regulator.
ORSA disclosure	<p>Disclosure and information including:</p> <ul style="list-style-type: none">(a) The qualitative and quantitative results of the own risk and solvency assessment process and the conclusions drawn by company from those results;(b) The methods and main assumptions used in the own risk and solvency assessment process;(c) Information on the Group's overall solvency needs and a comparison between those solvency needs, the regulatory capital requirements and the Group's own funds;(d) Qualitative risk profile of the business, along with identified emerging risks, utilising the established processes;(e) A qualitative assessment of weaknesses in the business model, along with assessment of the Group's business strategy;(f) Continuous monitoring of solvency position and contingency planning activities. The results will be summarised retrospectively in each ORSA Report, indicating any actions taken in the event of deterioration of the solvency position during the year. <p>This will be constructed from the ORSA policy, and the ORSA internal report.</p>

B.4.3. BUSINESS DECISION MAKING & OVERALL SOLVENCY NEEDS

On an annual basis, the business strategy is reviewed and business trends and emerging risks are considered. A product strategy and an investment strategy are devised, stipulating targets and discretionary limits for investments management and product management respectively.

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

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

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SECTION B: SYSTEM OF GOVERNANCE (continued)

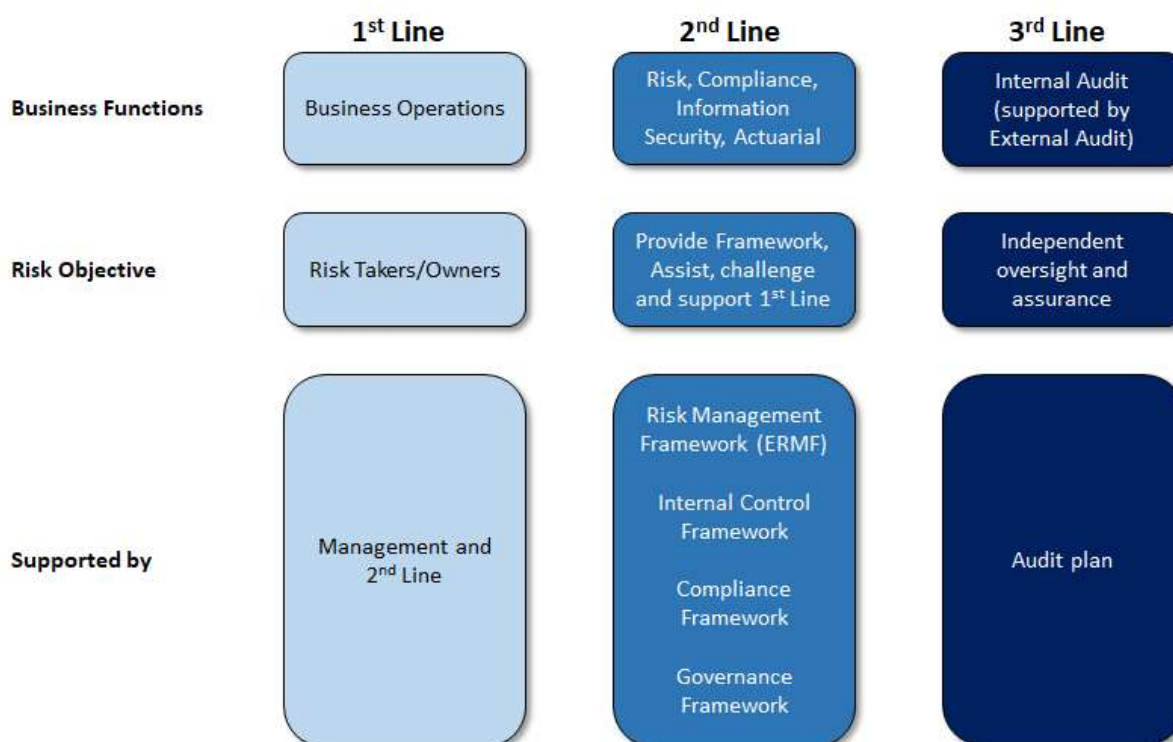
B.5. INTERNAL CONTROL SYSTEM

B.5.1. OVERVIEW OF INTERNAL CONTROL SYSTEM

The corporate governance framework is supported by a group-wide internal control system.

The internal control system facilitates the achievement of BHSF Group's objectives through operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, policies, best practice governance and the embedding of the desired Group culture and values.

It is designed according to the three lines of defence model. It is articulated within policies for the control functions which articulate the responsibilities, reporting lines, and the activities and approach taken for each of the control functions. The three lines of defence model ensures appropriate independence and objectivity in internal control activity. In practice this means that BHSF Group operates a system of internal controls throughout all levels of the business. Everyone within the organisation has responsibility for internal control.



The Group outsources the actuarial function, including some of the associated Solvency II activities, further ensuring objective oversight.

B.5.2. REPORTING LINES AND INDEPENDENCE

BHSF Group incorporates the control functions and the associated reporting lines into the organisational structure, ensuring that each function is free from influences that may compromise their ability to undertake duties in an objective, fair and independent manner.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

Each function operates under the ultimate responsibility of, and reports to, the Board.

Each individual performing a control function is able to communicate on their own initiative with any staff member and is given the necessary authority, resources and expertise. They have direct access to the Board as required and unrestricted access to all relevant information necessary to carry out their responsibilities.

B.5.3. RISK MANAGEMENT FUNCTION

The Head of Risk has a number of key accountabilities, including but not limited to:

- (a) Oversight of the ERMF and its application within the business;
- (b) Developing the Risk Management Policy and keeping it up to date;
- (c) Coordinating the risk management and internal control activities;
- (d) Ensuring that risks are formally evaluated and appropriately categorised;
- (e) Reporting on the current risk profile to the Risk and Compliance Committee and to the Board;
- (f) Presenting an independent opinion on all matters relating to risk;
- (g) Escalating any appropriate/required matters to Management and/or the Board (direct access to the Board is maintained);
- (h) Providing a 'face' for risk management within the business; and,
- (i) Providing ongoing risk training to the business.

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

In order to meet the accountabilities defined above, the Head of Risk undertakes all of the following tasks:

- (a) Close liaison with all senior management and directors on at least a quarterly basis;
- (b) Close co-operation with finance and, in particular, the owner of capital modelling;
- (c) Liaison with independent non-executive directors, the Chair of the Board and the Chair of the Risk and Compliance Committee;
- (d) Attendance at all risk related committee meetings and Executive meetings, along with Board meetings for Risk-specific agenda items; and
- (e) Provision of training and education for risk related matters as appropriate.

B.5.4. COMPLIANCE FUNCTION

The Head of Compliance function has responsibility for ensuring the Group is in compliance with existing and new regulations (FCA and PRA). The Head of Compliance oversees the compliance program, functioning as an independent and objective body that reviews and evaluates compliance issues/concerns within the BHSF Group.

Key accountabilities include:

- (i) Advising the BHSF Group Board on compliance with all applicable regulations;

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SECTION B: SYSTEM OF GOVERNANCE (continued)

(ii) Assessment of the possible impact of any changes in the regulatory environment on the operations of the Group; and

(iii) Identification and assessment of compliance risk

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

- (a) Establishing a compliance plan detailing regulatory changes and activities and resources needed to address them given their applicability to BHSF Group
- (b) Conducting an assessment of the adequacy of the measures adopted by the Group to address new regulation in order to prevent non-compliance
- (c) Reviewing regulatory publications in order to identify any new or changing regulations and their applicability to BHSF Group
- (d) Identification of potential areas of compliance vulnerability and risk; development and implementation of corrective action plans for resolution of problematic issues, and provides general guidance on how to avoid or deal with similar situations in the future
- (e) Reporting quarterly to the risk committee detailing progress on the compliance plan, new compliance risks, and a compliance risk assessment
- (f) Monitoring areas of regulatory vulnerability including, but not limited to, financial promotions, new product literature, sales, and complaints
- (g) Completion of regulatory returns including: retail mediation and activities return; close links return; controllers report
- (h) Collaboration with other departments to direct compliance issues to appropriate existing channels for investigation and resolution
- (i) Co-ordinating compliance activity across other functions as appropriate
- (j) Responding to alleged breaches of regulations or legislation by evaluating or recommending the initiation of investigative procedures

B.5.5. COMPANY SECRETARIAL FUNCTION

The objective of the company secretarial function is to provide compliant, cohesive, effective and efficient company secretarial services ensuring compliance with company law.

It achieves this by bringing a disciplined approach to:

- Board & Committee meeting administration – managing the corporate governance calendar, informing attendees, preparing agendas, collating and distributing papers, taking minutes for board meetings, board committees and company conferences, and managing the written resolution process for Board decisions made outside of meetings
- Company record maintenance – drafting forms required for company formation, company constitution and special resolutions, and maintaining statutory books
- Companies House communications – lodging required notifications with Companies House, filing annual returns and the annual report & accounts, and dealing with correspondence from the Registrar.
- Supporting the Board & Committee Chairs and maintaining good information flows between the Board and its Committees, and between executive and non-executive directors

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.6. INTERNAL AUDIT FUNCTION

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

In line with a proportional approach the BHSF Group Board has determined to use an independent external supplier of internal audit services.

This ensures that:

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

The internal audit service supplier is accountable for:

- (i) Establishing an audit plan in consultation with the Group
- (ii) Implementing and maintaining the audit plan
- (iii) Issuing recommendations to the Group's Audit Committee
- (iv) Periodically reviewing the implementation of recommendations agreed with the Audit Committee
- (v) Reviewing the adequacy of the effectiveness of the internal control system and the system of governance
- (vi) Providing a written report annually regarding all the activities it has carried out over the previous twelve month period, a summary of results of any testing carried out and compliance with any recommendations resulting from weakness identified through the testing activity, a statement regarding the overall effectiveness of the internal control environment, and
- (vii) Ensuring the Audit Committee and BHSF staff are kept informed of regulatory and governance best practice developments.

In establishing and agreeing its audit plan the internal audit function must –

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

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SECTION B: SYSTEM OF GOVERNANCE (continued)

(e) Report and agree the plan with the Audit Committee

Periodically changes to the audit plan may be required, these must be agreed with the Audit Committee and Board prior to implementation.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.7. ACTUARIAL FUNCTION

In line with a proportional approach the BHSF Group Board has outsourced its actuarial function to Barnett Waddingham.

Key accountabilities of the actuarial function include:

- (i) Reviewing the Group's valuation of technical provisions
- (ii) Determining the Group's capital requirements through application of the standard formula and any additional modelling required by the ORSA
- iii) Reviewing underwriting risk policies and procedures and reinsurance arrangements

The actuarial activities contribute to the effective implementation of the Group's ERMF through ensuring the accuracy, timeliness and completeness of the quantification of risks assessed through the ORSA process, monitoring overall capital adequacy.

This information allows the Group to confidently assess the impact of any significant decisions on the capital position of the Group.

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SECTION B: SYSTEM OF GOVERNANCE (continued)

B.8. OUTSOURCING

B.8.1. OUTSOURCING OF CRITICAL FUNCTIONS

BHSF Group maintains a network of third parties with whom it collaborates to deliver its products and services. Examples of outsourcing arrangements within BHSF Group include:

- Investment management is undertaken by UBS according to a defined investment mandate.
- Actuarial function is outsourced to Barnett Waddingham according to an agreed engagement letter.
- Internal audit is managed by RSM according to an agreed charter
- Information technology services – many IT services and functions are outsourced including certain aspects of disaster recovery and information security
- Product and service suppliers – salary sacrifice scheme counterparties; Human Resources support counterparties; Occupational Health Services counterparties; network clinicians

Further to these external outsourcing arrangements BHSF operating companies also outsource activities to other entities within the Group. Central services such as finance, information technology, and human resources are provided by BHSF Management Services Limited to all companies in the Group.

The directors of BHSF Group recognise that in order to ensure continuing quality of service it is essential that both internal and external outsourcing relationships are entered into, managed and transitioned from in an adequately controlled manner.

B.8.2. OUTSOURCING POLICY

B.8.2.1. POLICY OVERVIEW

The Group Board has established an outsourcing policy to be applied to all outsourcing relationships – that is all relationships that can materially impact either:

- (i) the quality and/or continuity of business operations;
- (ii) the system of governance of BHSF Group; or
- (iii) the financial performance of BHSF Group.

B.8.2.2. OUTSOURCING OBJECTIVES

- BHSF Group aims to ensure excellence of service from all outsourcers and all suppliers.
- BHSF Group aims to ensure counterparties deliver a high quality timely service and meet their service level agreements

B.8.2.3. OUTSOURCING PRUDENT PERSON PRINCIPLES

- 1 With regard to third party risk, BHSF Group and its subsidiaries will not undertake third party relationships in such a way that would:
 - (a) Undermine continuous and satisfactory service to policyholders;
 - (b) Materially impair the quality of the system of governance of the Group;

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SECTION B: SYSTEM OF GOVERNANCE (continued)

- (c) Unduly increase operational risk;
 - (d) Impair the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations; or
 - (e) Materially impair the quality of internal control.
- 2 Outsourcing will not be undertaken in a manner that removes the responsibility for discharging obligations under the regulatory system. In particular:
- (a) the outsourcing must not result in the delegation by senior personnel of their responsibility;
 - (b) the relationship and obligations of BHSF Group towards its clients under the regulatory system must not be altered;
 - (c) the conditions with which the firm must comply in order to be authorised, and to remain so, must not be undermined; and
 - (d) none of the other conditions subject to which the firm's authorisation was granted must be removed or modified.
- 3 All outsourcing/supplier arrangements are made with UK firms or UK divisions of global firms where UK law is applicable.

B.9. ASSESSMENT OF ADEQUACY OF SYSTEM OF GOVERNANCE

BHSF Group is committed to the adoption of governance best practice and continuing enhancement of its system of governance. Consequentially, on an annual basis the BHSF Group Board oversees an assessment of the adequacy of its governance system. In 2020, this exercise found no issues which indicate the system of governance is not adequate for an organisation of BHSF Group's size and nature.

BHSF Group has made significant developments to its governance system over the past few years. During 2020, improvements to governance arrangements have continued, and the Group remains committed to further improving governance in the coming 12 months.

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SECTION C: RISK PROFILE

C.1. OWN RISK AND SOLVENCY ASSESSMENT METHODOLOGY

C.1.1. DIFFERENCES BETWEEN OWN RISK ASSESSMENT AND STANDARD FORMULA

The methodology used to determine the own solvency needs deviates from the standard formula model, in so far as it separates out employee pension risk.

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

In particular, from the perspective of BHSF Limited and the Group as a whole, the standard formula only partially covers the risk of a shortfall in the defined benefit employee pension scheme. This is accounted for within the market risk module and only considers the interest rate risk and market risks associated with the scheme. It does not consider longevity risk associated with the pension scheme.

C.1.2. RELATIONSHIP BETWEEN RISKS

Risk assessment and the determination of own solvency needs takes account of the relationship between the principal risks. The relationship between principal risks can also be called the correlation between principal risks. BHSF Group applies the same correlations as the standard formula but makes allowances for risks unrecognised by the standard formula such as liquidity risk and pension risk.

C.1.3. SENSITIVITY ANALYSIS

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

In order to ensure continued compliance with solvency capital requirement, BHSF Group have conducted sensitivity analysis over a number of key assumptions. These include the failure of the underwriting business to meet performance expectations and the outright failure of one or more non-insurance parts of the Group.

The capital model is run adjusting each of these key assumptions to the capital model to determine the vulnerability of the model to uncertainty in its inputs. The sensitivity analysis records the range of possible outcomes.

The outcome was projected continued compliance with the SCR and Own Solvency Needs over the three-year business planning period.

C.1.4. REVERSE STRESS TESTS

To ensure that BHSF Group's business plan is as robust as possible, BHSF Group undertakes reverse stress testing.

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SECTION C: RISK PROFILE (continued)

Reverse stress testing identifies events where the prospective management actions are not sufficient to prevent failure or the inability to transact regular business under normal conditions. The purpose of reverse stress testing is to identify key stresses to apply to the business model in assessing forward-looking capital needs.

The reverse stress testing scenarios include a number of factors which combine to undermine the ability of the Group to continue to transact under normal conditions. These include:

- Significant decreases in insurance premiums;
- Increases in the level of insurance claims; and
- Failure of business units other than the insurance business.

For each of the stressed scenarios defined, the business considers:

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

SECTION C: RISK PROFILE (continued)

C.2. MATERIAL RISKS AND MATERIAL CHANGES OVER THE REPORTING PERIOD

Please note, further elements relating specifically to coronavirus are documented in section F. Over the reporting period and progressing into 2021, the most significant threats to the business model are:

- a) **Reduction in the value of health cash plans** – driven largely by potential increases in Insurance Premium Tax (IPT). In addition, there is a concentration risk of Health Cash Plan books of business emanating from a historic business strategy. The current business strategy aims to reduce this concentration risk as far as possible.
- b) **Investment market volatility** – the ongoing negotiations around new future trading between the UK and the EU, as well as COVID-19 create significant uncertainty which restrict the ability of the Group to confidently invest in the future. However, of note is the roll-out of vaccines across the UK, which is reported to be impacting against new virus cases. This may provide some stability to this risk.
- c) **An ever-present and continually increasing cyber threat** – there has been some evidence of increased cyber threat during the pandemic (reports of cyber criminals taking advantage of staff that now work from home), although this has not impacted BHSF Group directly. UK Data Protection Act 2018 (DPA) has now been in force for some time, and the significant maximum penalties that could be imposed in the unlikely case of a major failing by the Group could pose a threat to business solvency. Owing to the susceptibility of special category data held within Occupational Health; e.g. medical data, BHSF Group has a purposefully capable DPA framework, with 24/7 monitoring of potential breaches and a clear understanding of what needs to be reported to the Information Commissioner's Office (ICO) and when. The Group maintains an Information Governance function which manages the framework and provides training on DPA and information security. BHSF Group has been re-accredited ISO27001, as a clear demonstration of strength in this area.
- d) **A potential reputational/social media risk event** – the current business strategy for BHSF Group aims to provide a modernisation of the overall business process, including a customer-centric approach. Naturally, in order to reach our current and prospective customers, BHSF Group must reach out in a medium that resonates with modern society, utilising the likes of Twitter, Facebook, LinkedIn, Instagram, etc. Exposure to social media can provide huge rewards, but also presents further risk elements. BHSF's internal marketing function has gone through a restructure and re-recruitment through the 2019-2020 period, resulting in an improved skillset. Systems are deployed in-function, allowing for social media monitoring, maintaining a track on key trends and any potential exposure BHSF may have.
- e) **Failure of BHSF Group to meet strategic objectives** – BHSF Limited is currently susceptible to fluctuations in IPT and claims ratio increases, owing to its concentration risk emanating from the health cash plan business. With reference to the non-insurance entities, a number of ambitious sales targets and low profit margins exist in the employee benefits (EB) and occupational health (OH) businesses, which could cause this risk to crystallise. Impact from COVID-19 has been seen across the EB and OH markets, but this has driven an ambitious digitalisation of the OH business; clinics are now mostly via video-conferencing, translation software is used to bridge any gaps in understanding, clinicians are able to work from home and conduct less travelling, etc. These changes bring cost-

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SECTION C: RISK PROFILE (continued)

effective risk reductions and BHSF OH is considered well placed to progress out of the pandemic. BHSF EB will progress through an in-house training and upskilling cycle, ensuring sales staff are well versed in new ways of selling through social media channels; e.g. LinkedIn, as well as holding digital sales events.

Based upon the identified key risks to the business, outlined above, the business plan(s) will address these threats through a focused three pillar strategy; delivering against a sustainable group of operating companies, a customer-centric business model (including marketing and brand awareness), and a continued focus on people and culture. Furthermore, the contingency plans established through reverse stress testing and scenario analysis, will ensure the ongoing viability of the business in a worst-case scenario.

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SECTION C: RISK PROFILE (continued)

C.3. ASSESSMENT RESULTS

C.3.1. BHSF GROUP RESULTS

The tables presented below provide an overview of the results, for BHSF Group, of the own solvency and risk assessment and the solvency capital requirements calculations over the reporting period.

	2020 Annual	2019 Annual	Change
Solvency Margin Group (% SCR)	203%	174%	29%
Solvency Margin Group (% Own Solvency Needs³)	189%	160%	29%

The increase in solvency ratios above is a result of the surpluses of the insurance business outlined in section A.

C.3.2. BHSF LIMITED RESULTS

The tables presented below provide an overview of the results, for BHSF Limited, of the own solvency and risk assessment and the solvency capital requirements calculations over the reporting period.

	2020 Annual	2019 Annual	Change
Solvency Margin BHSF Limited (% SCR)	238%	194%	44%
Solvency Margin BHSF Limited (% Own Solvency Needs)	222%	176%	46%

The growth in the year is due to the underwriting surplus in the year, as outlined in section A.

³ See section B.4.1.1 for definition

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SECTION C: RISK PROFILE (continued)

C.4. RISK ASSESSMENT INFORMATION BY RISK CATEGORY

C.4.1. HEALTH UNDERWRITING RISK

C.4.1.1. OVERVIEW

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

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

In conducting this line of business BHSF Group is exposed to health underwriting risks (note: these are “Non-Similar to Life Techniques” – NSLT). These are risks arising from the underwriting of health insurance obligations, whether it is pursued on a similar technical basis to that of life insurance or not, following from both the perils covered and the processes used in the conduct of business.

C.4.1.2. QUALITATIVE ASSESSMENT

Risk category	Description of exposure
Premium and Reserving Risk	Premium and reserving risk is driven by product volumes, claims expenses and administration expenses. All of BHSF Group’s insurance business is relatively short term. Individual and group insurance policies are run on a renewal basis (which may be monthly, or annually). Group Insurance policies may have a fixed price for up to three years.
Lapse Risk	BHSF Group is exposed to lapse risk through cancellations of individual or group insurance policies. BHSF Group distributes many individual policies through agreements with corporate clients. Whilst lapses to policies would in general have an overall trend for the industry, peaks in lapse rate may occur due to a termination of a relationship with a corporate client. That is one corporate client may have multiple employees who have a contract of insurance with BHSF Group. However the costs to the business directly related to lapses are negligible so this risk is immaterial.
Mass accident	Mass accident exposure relates to the exposure to insurance risk following an accident that effects a proportion of the UK population. Mass accident risk therefore affects policies which cover medical expenses after an accident. BHSF Group distributes personal accident insurance which provides compensation in the event of an accident either as part of a standalone policy or as part as a tailored for health proposition. Consequently, a large proportion of BHSF Group’s insurance portfolio is affected by mass accident risk.

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SECTION C: RISK PROFILE (continued)

Risk category	Description of exposure
Accident concentration	Accident concentration risk relates to the exposure to insurance risk following an accident within one building or within one company by the accident resulting in either death, disability or injury. The exposure to this risk depends on concentrations of personal accident insurance cover holders in one vicinity. BHSF Limited has a large number of arrangements with corporate clients who have numerous employees covered by personal accident insurance. Some of these corporate clients have several sites over which its employees are spread. Geographical concentration of policyholders is in the Midlands which has the largest accident concentration in the country.
Pandemic Note, this risk category is highlighted in the coronavirus section F.	<p>Pandemic risk relates to the exposure to insurance risk following and infectious disease in the UK. This affects medical expense policies underwritten by BHSF Limited that provide coverage for hospital stays or other treatments resulting from infectious diseases.</p> <p>A number of HCP policies carry a pandemic risk exclusion, where some others have yet to renew onto the new terms (see section F for more details).</p>

C.4.1.3. PRUDENT PERSON PRINCIPLES

Only products where BHSF Limited holds sufficient claims experience (or can obtain sufficient rating information) for underwriting should be underwritten in house, unless appropriate levels of reinsurance can be sourced.

Products will be priced profitably within discretionary pricing limits. This includes the pricing of assembled bespoke customer propositions but recognising that tactical pricing decisions may be made as necessary.

New books of business will only be accepted if the risks can be fully understood. If the book of business is material and will significantly alter the capital requirement of BHSF Limited, then the book of business will only be accepted following a risk assessment and board approval.

Any material change to an existing product, such as an additional benefit underwritten in house, or a ratings change of a benefit will require board approval and a risk assessment prior to implementation of the change.

A change to reinsurance arrangements either by transferring provider or increasing or decreasing the proportion of the risk reinsured is subject to board approval and must only be undertaken if the risks are fully understood and a risk assessment has taken place.

No reinsurance business will be underwritten.

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SECTION C: RISK PROFILE (continued)

C.4.1.4. MITIGATION AND CONTROL

Product selection: Desired business lines have been identified. No life insurance or general insurance is underwritten. New insurance products are selected for development which are consistent with the Company's vision and Risk Appetite.

Reserving: Claims, lapse and profitability data is analysed on a regular basis. This is used to validate the reserving assumptions.

Reinsurance: Where the Company does not wish to hold the full liability for an underwritten product, reinsurance arrangements are established with a reputable reinsurer. Alternatively, an insurance product may be sourced from an alternative provider and white labelled.

Pricing: The profitability of products is monitored in order to ensure that products do not become unviable, and an appropriate level of surplus is generated to maintain solvency for the business. A review of product pricing is undertaken quarterly, with complex underwriting cases being manually underwritten, within defined constraints.

Claims management: All claims over a certain threshold are audited to validate eligibility. Any ambiguous claim is referred to management for review and controls are in place for claims settlements to ensure they are accurate and timely.

Experience within the market: BHSF has a long history of underwriting Health Cash Plans and has a number of variations of the underlying product, all of which are reviewed for profitability on a regular basis. The underwriting function is well versed in the terms and conditions of the product suite, along with the pricing sensitivities involved.

Pandemic exclusion: In 2019 we began to include pandemic exclusions within Health Cash Plans as they renewed. This did not extend to all policies in force at the time COVID-19 impacted the business in 2020. For more information on the impact of COVID-19, please see section F.

C.4.1.5. SUMMARY OF MOVEMENT OVER THE REPORTING PERIOD

Premium/Reserve risk has decreased due to a decrease in premiums and claims over the course of the year due to a small reduction in the size of the insurance book. Catastrophe risk has decreased for the same reason.

C.4.2. MARKET RISK

C.4.2.1. OVERVIEW

In the provision of its services BHSF Group has a number of schemes whose assets require management.

These include: insurance scheme assets and the defined benefits employee pension scheme assets. The defined benefits employee pension scheme is the responsibility of the Trustees and the employee pension funds are ring fenced. In management of its assets BHSF Group is exposed to risks of volatility in the investment market.

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SECTION C: RISK PROFILE (continued)

C.4.2.2. QUALITATIVE ASSESSMENT

Risk category	Description of exposure
Concentration	Market concentration risk exposure relates to risks stemming from either a lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers. The exposure depends on the exposure to each counterparty, weighted against a credit quality factor.
Interest rate	Interest rate risk is the risk that asset fair values or future cash flows will fluctuate as a result of changes to interest rates. Interest rate risk therefore affects the value of the Group's investment in corporate and government bonds.
Equity risk	Equity risk is the risk that asset fair values will fluctuate due to changes in equity prices. The exposure to equity risk depends on the quality of the equities and the value of the equity portfolio.
Property	The BHSF property portfolio consists primarily of Gamgee House Head Office, based in Birmingham and a portion of land in Wales.
Spread	Spread risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. Spread risk therefore affects the value of the Group's investment in corporate bonds.
Currency	Currency risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates. The Group's exposure to currency risks is restricted to foreign currency assets that are part of collective investment funds.

C.4.2.3. PRUDENT PERSON PRINCIPLES

BHSF aims to maintain a diversified investment portfolio in order to smooth risks and manage short term fluctuations in the investment market. In order to ensure that the risks associated to investment activity is adequately managed the following principles have been established:

- All investments must be in assets that are traded on a regulated market, although exceptions are permitted at prudent levels.
- Only invest in assets and instruments the risks of which BHSF Group can properly identify, measure, monitor, manage, control and report and appropriately take into account in the assessment of BHSF Group Limited's overall solvency needs.
- All assets of the firm must be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio of assets of the firm as a whole and localised such as to ensure their availability.
- Assets held to cover the technical provisions must be invested in a manner appropriate to the nature and duration of the insurance liabilities (the insurance scheme liabilities are currently covered by cash deposits).

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SECTION C: RISK PROFILE (continued)

- In the case of a conflict of interest the firm must procure that any third party that manages its assets will ensure that the investment of assets is made in the best interests of sustainability of the Group. (Cash is held to cover all insurance scheme liabilities and therefore the policyholders do not have a stake in the investments).
- Investments must be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer, group of undertakings or geographical area, or excessive accumulation of risk in the portfolio as a whole.
- Investments in assets issued by the same issuer or issuers belonging to the same group must not expose the firm to excessive risk concentration.
- All investments must be in assets that can be readily and reliably valued, except as are permitted at prudent levels.

C.4.2.4. Mitigation and control

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

Application of prudent principles for investment: Investments are managed according to the prudent person principle. In particular: (a) Investments are properly diversified in such a way as to avoid excessive accumulation of risk in the portfolio as a whole; (b) Assets are held in easily and frequently-traded shares and bonds which is appropriate to the short-term nature and duration of the insurance liabilities; and, (c) Investments in assets issued by the same issuer or issuers belonging to the same group do not expose the firm to excessive risk concentration.

Investment strategy: Constraints to investments in terms of asset mix, asset concentrations, and credit ratings of investment counterparties have been defined. A benchmarking report and a sector report is reviewed by the board to ensure that the investment strategy is appropriate. Any changes to the investment strategy have to be reviewed and approved by the board. A discretionary limits agreement is agreed with UBS, which is reviewed annually.

Investment limits: Limits are set within the market risk policy that prevent excessive exposure to investment risks.

Use of derivatives and other hedging instruments: The Board has no appetite for direct derivative counterparties, although it recognises that some hedging arrangements do exist within collective investment funds, for instance to hedge a collection of foreign-denominated bonds back to sterling.

Transaction monitoring: The Chief Finance Officer reviews disposals and asks the investment manager about any significant losses. The Chief Finance Officer reviews unrealised gains/losses and ensures that they are in line with market movements. The Chief Finance Officer reviews investment income and ensures the reasons for variation from budget are understood.

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SECTION C: RISK PROFILE (continued)

C.4.2.5. SUMMARY OF MOVEMENT OVER THE REPORTING PERIOD

Market risk components have been volatile over the course of 2020 as a result of significant market fluctuations driven by the COVID-19 pandemic. Despite this, the Solvency II quantification of market risk remains relatively similar at 31 December 2020 to its value at 31 December 2019 due to the prevailing market conditions on those specific dates.

C.4.3. COUNTERPARTY DEFAULT RISK

C.4.3.1. OVERVIEW

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

- Reinsurance relationships: BHSF Limited has three main insurance lines: Health Cash plans, Personal accident insurance, and Plan4Life cancer cover. It mitigates part of the risk for personal accident insurance and cancer cover by placing reinsurance with a single reinsurer (Beazley).
- Investment counterparties: BHSF Group invests its capital within financial instruments, managed through UBS.
- Banking counterparties: BHSF holds its cash within major UK banks.
- Individual policyholders: BHSF holds contractual arrangements with individual policyholders who have obligations to make payment for their policies.
- Corporate policyholders: BHSF holds contractual arrangements with corporate policyholders. The corporate policyholder has an obligation to make payment for the corporate policy and inform BHSF if there are changes to the individuals insured under the name of the policy.
- Insurance counterparties: BHSF brokers white-labelled products developed by other insurance providers. The insurance counterparties have an obligation to service the product once sold through the BHSF sales team. The insurance counterparties have an obligation to make payment to BHSF in terms of commission for the sale.
- Other suppliers: BHSF sells some non-insurance products on a standalone basis and within some of its health cash plans. These include helpline services and health risk assessments. The providers of the non-insurance products have an obligation to provide the service, while BHSF has an obligation to pay for their use.

In having counterparty relationships BHSF Group is exposed to counterparty risk. Counterparty risk is the risk of possible losses due to unexpected default or deterioration in the credit standing of the counterparties and debtors of the Group.

C.4.3.2. QUALITATIVE ASSESSMENT

Risk category	Qualitative description of exposure
Type One Counterparty Default	Type one counterparty default risk is the exposure of the Group to defaults of bank counterparties. The exposure to each counterparty is dependent on the likelihood of default of each counterparty and therefore dependent upon their credit rating.

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SECTION C: RISK PROFILE (continued)

Risk category	Qualitative description of exposure
	BHSF's main exposure to type one counterparty risk is bank default through the cash holding for insurance business and for other business. Cash is only placed in major UK banks.
Type Two Counterparty Default	<p>Type two counterparty default is the exposure of the Group to defaults of insurance intermediaries; policyholder debtors; and reinsurers. The exposure to each counterparty is dependent on the likelihood of default of each counterparty and therefore dependent upon their credit rating. BHSF's main exposures to type two counterparty risks are:</p> <ul style="list-style-type: none">• Intermediary counterparty default through the holding of some cash by an intermediary, this is limited to the exposure to BHCA Services Limited as policyholders introduced by brokers make payment direct to BHSF Limited.• Policyholder debtors, however stops can be made on claims payments following the default of a policyholder.• Reinsurance counterparty default through the holding of reinsurance with Beazley. However Beazley is a financially sound institution with a strong credit rating and reinsurance is limited to personal accident products and cancer cover products.• Other customer debtors, BHSF has exposure to occupational health trade debtors.

C.4.3.3. PRUDENT MANAGEMENT PRINCIPLES

- Only Group Board approved banking and reinsurance counterparties can be used.
- Counterparties must have a branch and physical presence in the UK.
- For reinsurers headquartered outside the UK, the regulatory regime operating in the home country must be equivalent to Solvency II according to the European Commission's published list of equivalent countries.
- Banking counterparties must comply with minimum levels for applicable capital, leverage, and liquidity ratios required by banking regulations.
- Financial information must be available for each counterparty used. For material counterparties credit ratings must be available from at least two major reputable credit ratings agencies.
- An analysis of financial statements and other available information conducted by the finance department must identify no significant issues. The precise analysis and thresholds to apply should be determined on a case-by-case basis, but should generally attest to the liquidity and good trading character of the counterparty.

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SECTION C: RISK PROFILE (continued)

- No direct derivative counterparties may be used. Some hedging arrangements within collective investments funds that are assessed on a “look through” basis are tolerated.
- With regard to operational counterparties, financial information must be available. The counterparties must be actively managed and have contractual agreements in place with clear exit plans.

C.4.3.4. MITIGATION AND CONTROL

Counterparty selection: Only Board approved banking counterparties can be used. Constraints are set for the credit rating of counterparties and the level of exposure for a type of counterparty. The Board approves any significant change to counterparty arrangements.

Due diligence: Credit assessments are undertaken for each proposed banking counterparty, and due diligence is carried out which includes consideration of financial stability, reputation and ability to meet contractual requirements.

Contract management: For each significant counterparty a contractual agreement is drawn up. These include specifications of: (a) the duties and responsibilities of both parties; (b) the counterparties commitment to comply with all applicable laws, regulatory requirements and guidelines as well as policies approved by the Group; (c) the counterparty’s obligation to disclose any development which may have a material impact on its ability to carry out activities effectively and in compliance with applicable laws and regulatory requirements; (d) a notice period for the termination of the contract which is long enough to enable the Group to find an alternative solution; e) that the Group is able to terminate the arrangement where necessary without detriment to the continuity and quality of its provision of services to policyholders; and (f) that the counterparty shall protect any confidential information relating to the Group and its policyholders, beneficiaries, employees, contracting parties and all other persons.

Risk mitigation: BHSF has no collateral arrangements in place with its respective counterparties.

Counterparty Monitoring: On an annual basis, the individual responsible for the counterparty relationship reviews the financial viability of the counterparty in meeting obligations, and the overall performance of the relationship in meeting contractual terms. On an ongoing basis financial controls are in place to ensure financial obligations of counterparties are met as they fall due.

Credit Control: Credit control procedures operate day-to-day to keep the total amount of outstanding debt down. Debtors are managed on a day-to-day basis, with regular contact established in order to arrange payment of amounts overdue. Debtors are considered to be potentially impaired when they are more than three months overdue and without a payment plan in place or there are other indicators of impairment.

Tolerance limits: The Board is not willing to accept the risk of placing cash with any bank outside of a preapproved list of banking counterparties. The Board is not willing to accept the risk of any single banking counterparty of having a credit rating that sits outside of Board approved risk appetite.

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SECTION C: RISK PROFILE (continued)

C.4.3.5. SUMMARY OF MOVEMENT OVER THE REPORTING PERIOD

Counterparty default risk has grown over the year due to significantly increased cash balances. For BHSF Limited as a single entity, support to other Group companies in the form of intra-group debt has grown, which has increased counterparty default risk in the business.

C.4.4. EMPLOYEE PENSION FUND RISK

C.4.4.1. OVERVIEW

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

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

For the DB scheme, the benefit depends on each member's salary and pensionable service. Members are no longer accruing benefits under the scheme. Pensions are revalued from the date that pensionable service ceased, up to retirement. Once in payment, pension increases are applied, parts of which are linked to inflation (up to a limit).

The scheme's assets are held separately from the Group in a trust. The assets are safeguarded by trustees on behalf of the members. The assets are invested to meet the benefits promised under the scheme, by a combination of investment returns and contributions made by the Group. BHSF has an obligation to address any deficits in the DB pension scheme.

As such BHSF Group is exposed to the risk of volatilities of the investment market and volatilities of pension scheme liabilities.

C.4.4.2. QUALITATIVE ASSESSMENT

Risk Category	Application to BHSF
DB Scheme	<p>This risk relates to the Group's exposure to the DB pension scheme deficit.</p> <p>BHSF provides retirement benefits to some of its former employees and current employees through defined benefits (DB) and defined contributions (DC) pension schemes. The DB pension scheme was closed to further accrual on the 31st October 2012. As with the vast majority of organisations that have operated a DB pension scheme, it is recognised as a material risk to the business.</p> <p>The Scheme's assets are held separately from the Group in a trust fund, looked after by Trustees on behalf of the members. The assets are invested to meet the benefits promised under the Scheme, by a</p>

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SECTION C: RISK PROFILE (continued)

Risk Category	Application to BHSF
	<p>combination of investment returns and contributions made by the Group. Under the normal course of events, actuarial valuations are undertaken every three years to confirm whether the assets are expected to be sufficient to provide the benefits. If there is a shortfall, a recovery plan is put in place under which the Group is required to pay additional contributions over a period of time agreed with the Trustees.</p> <p>BHSF has an obligation to address any deficits in the DB pension scheme.</p> <p>BHSF is exposed to the risk arising from a shortfall in the defined benefits employee pension fund which results in a requirement to inject capital into the defined benefits scheme. The DB Scheme carries with it a longevity risk and market risks. The liabilities might significantly increase if the underlying assumptions on longevity (morbidity rates) change. Volatility of asset values caused, in particular, by fluctuations in interest rates, could potentially lead to a widening of the gap between pensions assets and liabilities</p>

C.4.4.3. MITIGATION AND CONTROL

Triennial pension fund reviews

On a triennial basis a review of the pension deficit is undertaken by actuaries. This includes a review of the underlying actuarial assumptions. This is reviewed by the pension fund trustees and by the Group Board.

Pension fund performance reports

On a quarterly basis the pension fund administrators provide reports on the performance of funds including the valuation of funds. These reports are reviewed by the pension fund trustees and by the Group Board.

Actuarial report

On an annual basis a report is produced which defines the actuarial functions underlying the deficit calculations and providing detail of potential exit plans together with the impact on the BHSF Group. These reports are reviewed by the pension fund trustees and by the Group Board.

Pension fund contributions

Periodically pension fund contributions are made by BHSF Group to ensure any identified deficit is addressed within a reasonable time period and that no excessive deficit is accumulated.

C.4.4.4. SUMMARY OF MOVEMENT OVER THE REPORTING PERIOD

The latest triennial review of the pension scheme's position is currently being carried out. The review is date 31 March 2020 – a significant low point for markets given the UK and other parts of the world had entered 'lockdown' due to COVID-19. Market conditions have improved significantly since that point in time and the ongoing review will take such

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SECTION C: RISK PROFILE (continued)

improvements into consideration. When complete, it is likely that the triennial review will show a significantly increased deficit which will lead to an increased funding requirement from the Group. However, the cash and capital reserves built up during 2020 mean that this does not pose a significant risk to the liquidity or capital positions of the Group.

C.4.5. OPERATIONAL RISK

C.4.5.1. OVERVIEW

Operational risk is the risk of losses stemming from inadequate, unfair or failed internal processes, people and systems or from external events. It includes legal compliance risks.

C.4.5.2. QUALITATIVE ASSESSMENT

Risk category	Qualitative description of exposure
Information Technology	Risks that emanate from the use, ownership, operation, involvement, influence and adoption of IT within BHSF Group.
Information Security	Risks that emanate from the potential loss and/or misuse of company data including the failure in storage, use, transmission, management and security of the data.
Physical Assets	Risks emanating from a physical and tangible item of economic, commercial or exchange value; e.g. company premises.
Financial crime	Risks emanating from bribery, corruption, collusion and money laundering. Financial crime risk includes internal and external fraud types; e.g. external claims fraud, identity theft, and internal expense fraud.
People	Risks emanating from and to people within BHSF Group. As part of the Group's ERMF, mental health and general wellbeing are also captured under this category.
Conduct	Risks emanating from an action or inaction by an employee and / or firm which results in a failure to deliver fair customer outcomes. This may cause customer detriment or affect market integrity.
Supplier / Outsourcer	Risks emanating from Suppliers and Outsourced Third Parties, including a required governance oversight of such third parties; e.g. the risk of losses stemming from a failure of operations as a result of a third party.
Process Risk	Risks emanating from the failure of day-to-day operations of the business, inherently reliant on defined processes that can be replicated multiple times per day, week, month, etc.
Legal and Regulatory	Risks emanating from changes in regulation and legislation. In addition, the impact of not abiding by regulation and/or legislation.
BCM / DR Risk	Risks emanating from external events, such as flood, terrorist attack, pandemic, etc. along with the ability for the Group to maintain Operational Resilience and reduced impact to the Business Strategy.
Health & Safety	Risks emanating from the potential for harm to our staff, visitors and the local community where BHSF Offices might be located.

C.4.5.3. PRUDENT PERSON PRINCIPLES

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SECTION C: RISK PROFILE (continued)

- Employees should meet fit and proper requirements and have the necessary skills and experience to fulfil their roles.
- High standards of service should be ensured through implementation of documented processes and standard operating procedures and automation should be used to minimise the risk of human error (end user computing applications should be kept to a minimum).
- Minimum standards of control should be established for all categories of operational risk and should be documented in policies. The operation of these controls should be regularly monitored.
- Business continuity policies and disaster recovery policies should be maintained to ensure continuous operational service and in the event of an unavoidable catastrophe resume operations with minimal disruption.
- Group insurances should be appropriate given the operational risks faced by the business within changing business conditions and these should be reviewed on an annual basis.

C.4.5.4. MITIGATION AND CONTROL

Information Technology Risk	Examples: Incident logging and incident tracking; development testing; managed IT patching; ISO27001 accreditation.
Information Security Risks	Examples: Third party data information security review; network security - managed firewall with intrusion detection system (IDS); managed Antivirus (Kaspersky AV); password control; two-factor authentication access control; managed file transfer; data subject consent; cyber insurance.
Physical Assets Risk	Examples: Total Facilities Management (TFM) programme (Dovetail Group); premises security; business continuity plan (BCP); insurance arrangements.
Financial Crime Risk	Examples: Access control and password protection; management review of outward supplier payments; gift and bribery procedure; transaction limits; claims authorisation and investigation; segregation of duties.
People Risk	Examples: Fit and proper controls (i.e. DBS checks); succession planning; performance management; training needs analysis; insurances in place; OH and RISE referrals.
Conduct risk	Examples: Quality assessment; professional indemnity insurance; Clinician right to practice checks (e.g. DBS checks); complaints management; call monitoring (approx. 7 calls per sales person, per month); contact centre staff training; 2 nd Line of Defence oversight.
Third party risk	Examples: Due diligence process; conflicts of interest management; outsourced Service Contractual agreements; outsourcer / supplier auditing and monitoring; Outsourcer / supplier policy.
Process risk	Examples: How to guides; documented process maps, training.
Legal and Regulatory	Examples: Legal advisors (in various specialisms), Group insurances; Regulatory change monitoring.

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SECTION C: RISK PROFILE (continued)

C.4.5.5. MOVEMENT OVER THE REPORTING PERIOD

The Standard Formula quantification of Operational Risk has been used to determine the Operational Risk requirement. The standard formula method of Operational Risk quantification is determined considering the volume of business that flows through the Group.

A number of risk workshops were run in Q3 / Q4 2019, with direct engagement and interaction from staff. This was designed as part of an additional training plan and risk champion framework for the Group. Owing to COVID-19, the face-to-face workshops were not able to be replicated, but they are considered of value and will be built into an annual training programme (on top of the existing mandatory eLearning training) for staff. Noticeable engagement increases were seen post-training, indicative that the interactive training programme delivered the desired results.

C.4.6. GROUP RISK

C.4.6.1. OVERVIEW

In its operation as a group of companies, BHSF Group is exposed to a contagion risk amongst the operating companies. This consists of both (a) concentration risk where an exposure to a risk is held by multiple business entities; and (b) the risk of contagion of risks between Group entities experienced through reputational damage or through liquidity issues at an entity level.

In the course of normal trading, all companies within the BHSF Group incur costs which must be settled. The main trading entities – BHSF Limited, BHSF Management Services Limited, BHSF Employee Benefits Limited, and BHSF Occupational Health Limited – incur the vast majority of the Group's costs and therefore carry most of the liquidity risk. The major liabilities and sources of cash to meet them in each main trading entity are discussed below.

BHSF's most significant financial obligations include: pension obligations; claims obligations; underwriting costs and commissions; salaries and payroll taxes; IT maintenance and support; and taxes. The maintenance of sufficient cash inflow depends on premium and all other income payments, along with investment income and gains.

C.4.6.2. QUALITATIVE ASSESSMENT

Risk category	Qualitative description of exposure
BHSF Limited liquidity risk	In many lines of insurance business, premium income and, to a greater extent, claim payments do not occur evenly. This means that cash flow can be volatile and liquidity problems can occur if cash flow is not properly managed. BHSF Limited's business does not follow this pattern. The nature of the BHSF Limited's core health cash plan business, which makes up over 90% of the Group's premium income is such that: (i) claims are of high volume, covering dental and optical appointments and other day-to day treatments, but low in value; (ii) operating costs are relatively stable; and (iii) premium income is regular and collected on a monthly basis. Consequently, there are fluctuations in cash flow, but nowhere near the degree experienced in some other types of insurance. A

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SECTION C: RISK PROFILE (continued)

	fluctuation of cash flow could however be caused by a lapse of a corporate client or by a large project expenditure, or by an acquisition.
BHSF Employee Benefits Limited liquidity risk	BHSF Employee Benefits income is dependent upon commission payments from BHSF Limited and other insurance providers plus invoiced premium income from HR support services. Income is therefore regular. The financial obligations of BHSF Employee Benefits Limited are limited to operating costs which are stable. Consequently, there are minimal fluctuations in cash flow. A fluctuation of cash flow could however be caused by a lapse of a corporate client or by a large project expenditure, or by an acquisition.
BHSF Occupational Health Limited liquidity risk	BHSF Occupational Health Limited's income is dependent upon occupational health service revenues. Income is regular and collected on a monthly basis. Acquisition activity of a number of individual occupational health businesses has driven up operational costs, designed to ensure high quality consistent processes and systems throughout BHSF Occupational Health Limited. This has put a strain upon liquidity as has the fact that BHSF Occupational Health Limited has, thus far, been loss-making. Capital contributions are made from BHSF Group Limited when necessary.

C.4.6.3. MITIGATION AND CONTROL

BHSF Group Limited holds cash reserves which enable financial liabilities to be met in full.

In addition, a significant buffer is maintained above working capital requirements, with BHSF Limited holding sufficient cash and liquid investment reserves which enable financial liabilities to be met in full.

The Group has the option of internal funding where one subsidiary has a temporary liquidity need that can be met by a cash surplus in another subsidiary. Money can be received from subsidiary companies via dividend or formal loan where the particular subsidiary's policies allow for this. This can then be passed into another subsidiary by way of formal investment or loan (where allowed by the particular subsidiary's articles of association and appropriate laws and regulations). Alternatively, informal intra-group current accounts repayable on demand could be used for very short term intra-group funding.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES

For both the BHSF Group and BHSF Limited balance sheets, this section sets out the differences between the regulatory balance sheets under Solvency II and the balance sheets appearing in their respective statutory annual reports and accounts as prepared under UK Generally Accepted Accounting Practice (UK GAAP).

Besides the differences set out in this section, there are no material differences between the Solvency II balance sheets and the UK GAAP balances sheets. For further information on the valuation methods for those assets and liabilities which are not discussed in detail in this section (because there is no difference between Solvency II and UK GAAP) see Appendix A, which outlines the Group's accounting policies.

Note also that Appendix B includes full BHSF Group and BHSF Limited regulatory balance sheets (labelled as template S.02.01).

BHSF Group - Bridge between UK GAAP and Solvency II Balance Sheets

	UK GAAP £'000	Intangibles (A) £'000	Technical Provisions (B) £'000	Group Boundary (C) £'000	Solvency II £'000
Assets	40,071	(671)	-	(1,436)	37,964
Liabilities	(11,770)	-	(785)	1,436	(11,119)
Net Assets²	28,301	(671)	(785)	-	26,845

BHSF Limited - Bridge between UK GAAP and Solvency II Balance Sheets

	UK GAAP £'000	Intangibles (A) £'000	Technical Provisions (B) £'000	Solvency II £'000
Assets	42,421	(424)	-	41,997
Liabilities	(9,080)	-	(785)	(9,865)
Net Assets²	33,341	(424)	(785)	32,132

(A) Intangible assets represent the value of investments in software and systems. They also include 'goodwill', which arises on the balance sheet of the buyer when one company buys another. The Solvency II regulations state that goodwill and most other intangibles should be valued at nil. This is in contrast to UK GAAP which values goodwill and other intangibles at cost less amortisation and impairment and therefore a difference arises which reduces the Group's assets for regulatory purposes by £671k and BHSF Limited's assets by £424k.

⁴ In statutory annual reports and accounts, 'net assets' is referred to as 'accumulated fund'. In the Solvency II balance sheet, 'net assets' are referred to as 'excess of assets over liabilities'. These terms are all interchangeable.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

- (B) There are two main differences between the Solvency II definition of technical provisions and the UK. These are explained in detail in the Technical Provisions section below.
- (C) Under UK GAAP, the consolidated accounts of the Group eliminate any investments in other BHSF Group companies and incorporate their assets line-by-line into the balance sheet of the Group. Solvency II takes a different approach and incorporates the assets and liabilities of the following BHSF Group companies into a single line:
- BHSF Employee Benefits Limited;
 - BHSF Medical Practice Limited;
 - BHSF Corporate Healthcare (Holdings) Limited; and
 - Nexus Healthcare Limited

This has no overall impact on the value of the Group's assets and liabilities. However, by incorporating a number of different assets and liabilities into a single line, it appears to decrease both assets and liabilities by an equal amount; in this case, £1,436k.

This adjustment does not affect BHSF Limited's individual numbers

D.1. ASSETS

As outlined above, the valuation of most asset classes does not differ between Solvency II and UK GAAP balance sheets. For readers who wish to better understand the underlying valuation bases for assets, the table below outlines this at a high level and cross-refers to the relevant accounting policy in Appendix A.

Asset Class	Valuation Method	Accounting Policy
Goodwill	Nil ⁵	A
Intangible assets	Nil ³	D
Deferred tax assets	Amortised cost	F
Property, plant & equipment for own use	Property – Market Value Other – depreciated cost	C B
Property other than for own use	Market Value	C
Participations and related undertakings	Aggregation ⁶	
Equities - listed	Market Value	E
Equities - unlisted	Market Value	E
Government Bonds	Market Value	E
Corporate Bonds	Market Value	E
Collective Investment Undertakings	Market Value	E
Reinsurance recoverables	Amortised cost	F

⁵ See adjustment (A) in the previous section.

⁶ See adjustment (C) in the previous section. This is the aggregated assets and liabilities of a number of subsidiary companies. Those underlying asset and liabilities are valued in line with the methods set out in sections D.1 and D.3.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

Insurance receivables	Amortised cost	F
Trade receivables	Amortised cost	F
Cash and cash equivalents	Face Value	F
Any other assets not elsewhere shown	Stock – Cost	G

D.2. TECHNICAL PROVISIONS

In the regulatory balance sheet, technical provisions comprise three major components: a claims provision; a premiums provision; and a risk margin.

Solvency II defines technical provisions in a different way to the statutory accounting framework and therefore some significant differences in approach arise.

	Solvency II £'000	UK GAAP £'000	Difference £'000	
Claims Provision	1,603	1,549	54	D.2.1
Premiums Provision	725	491	234	D.2.2
Risk Margin	497	-	497	D.2.3
Total technical provisions	2,825	2,040	785	

D.2.1. CLAIMS PROVISION

The claims provision represents a best estimate of the liabilities that have already been incurred by the insurance business. This includes claims which have been reported but for which payment is pending at the valuation date, as well as an estimate of the claims which have been incurred at the valuation date but have yet to be reported by policyholders.

The Solvency II provision differs slightly (£54k) from the UK GAAP provision by the inclusion of 'events not in data' (ENID). This is an extra allowance to accommodate the possibility of unexpected claims events occurring which have not been seen before and therefore lie outside of the experience-based estimates of the UK GAAP provisions.

D.2.2. PREMIUMS PROVISION

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

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

The Solvency II regulatory balance sheet replaces the UK GAAP provision with the total amount of claims that is estimated will be incurred in future periods covered by unearned premiums. The concept of recognising future liabilities in this way is not a feature of

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

generally accepted accounting practice, giving rise to a difference between the regulatory and statutory approaches.

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

This difference between the Solvency II and UK GAAP treatments gives rise to an increase in technical provisions for regulatory purposes of £234k.

D.2.3. RISK MARGIN

The risk margin is a concept introduced by the Solvency II regulations and does not have an equivalent under UK GAAP. This therefore causes additional liability of £497k to be recognised on the regulatory balance sheet as compared to the statutory balance sheet.

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

D.3. OTHER LIABILITIES

As outlined above, the valuation of most liability classes does not differ between Solvency II and UK GAAP balance sheets. For readers who wish to better understand the underlying valuation bases for liabilities, the table below outlines this at a high level and cross-refers to the relevant accounting policy in Appendix A.

Liability Class	Valuation Method	Accounting Policy
Other provisions	Amortised Cost	F
Pension benefit obligations	Projected Unit Method	H
Deferred tax liabilities	Amortised Cost	F
Trade payables	Amortised Cost	F

D.4. ALTERNATIVE METHODS FOR VALUATION

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

D.5. ANY OTHER INFORMATION

There is no further information on capital management to disclose.

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SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

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SECTION E: CAPITAL MANAGEMENT

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

E.1. OWN FUNDS

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

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

	BHSF Group	BHSF Ltd
	£'000	£'000
Assets	37,964	41,997
Technical Provisions	(2,825)	(2,825)
Other liabilities	(8,294)	(7,040)
Excess of assets over liabilities	26,845	32,132

The reconciliation reserve represents the accumulated profits over the entire trading history of the Group. There are no restrictions on the use of this reserve that would prevent it being used to meet regulatory capital requirements. Under the Solvency II regulations, this means that all of the Group's reconciliation reserve belongs to the high quality 'tier one'.

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

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

	BHSF Group	BHSF Ltd
	£'000	£'000
Opening own funds	24,500	25,759
Total comprehensive income	2,516	6,653
Solvency II adjustments	(171)	(280)
Closing own funds	26,845	32,132

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

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

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

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

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

	BHSF Group	BHSF Limited
	£'000	£'000
Market Risk	7,772	7,756
Health Risk	6,495	6,495
Counterparty Default Risk	1,818	2,424
Diversification	(4,080)	(4,400)
Operational Risk	1,205	1,205
Group additional	0	0
Solvency Capital Requirement	13,210	13,480
Own Funds	26,845	32,132
Solvency Ratio	203%	238%

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

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The MCR is calculated based on a formula set out in the regulations for non-life insurers. This results in an MCR as at 31 December 2020 as follows:

	BHSF Group	BHSF Limited
	£'000	£'000
Minimum Capital Requirement	3,370	3,370

Given the strong solvency ratio reported above, the Group's ratio of own funds to minimum eligible capital requirement is extremely high at 797% (and 953% for BHSF Limited). This indicates the risk of the Group failing to meet its MCR is extremely low.

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

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

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

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

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

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

E.6. ANY OTHER INFORMATION

There is no further information on capital management to disclose.

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SECTION F: COVID-19 ADDITIONAL INFORMATION

Article 54 of the Solvency II directive requires firms to provide updates when a 'major event' takes place. Though information regarding COVID-19 was provided in the 2019 SFCR, it is such a major and pervasive event it is considered beneficial to provide readers with a high-level update.

Please note that at no point during the COVID-19 pandemic has BHSF Limited or BHSF Group been at risk of non-compliance with its solvency capital requirement or minimum capital requirement. Furthermore, it is not considered likely that the ongoing effects of the pandemic will lead to any non-compliance with the solvency capital requirement or minimum capital requirement.

Operational Impacts

Over the last few years, BHSF Group has invested heavily in new systems and digitalisation of its business. This has provided a robust operational resilience capacity, which enabled the business to transition to a business continuity and remote working model seamlessly, upon the implementation of UK Government 'lockdown' measures. Thus, continuity of day-to-day operations to service policyholders has been well preserved.

The Group employs a 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. This resulted in lower than anticipated sales of employee benefits products.

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. This resulted in a significant decrease in occupational health revenues.

Underwriting Impacts

The widespread lockdown measures and shift of many NHS services to focus on COVID-19 meant that claims for dental, optical and routine hospitalisations fell significantly. Though we experienced claims for hospitalisation due to COVID-19, these claims did not outweigh the reduction in more routine claims. As a result the underwriting business recorded a significant surplus for 2020.

There remains uncertainty however. When lockdown conditions are eased there is a risk that BHSF could experience a significant increase in claims volumes as policyholders look to catch up on missed appointments. There is also the risk that as well as there being a greater volume of claims, individual claims are higher on average because missed appointments have resulted in preventative treatments not being taken, or have resulted in minor conditions becoming more serious.

BHSF has taken steps to make its products work better for policyholders by making changes to benefits to better suit the costs of COVID-safe treatment and offering premium holidays for those policyholders in need of our support. As the uncertainty about the short and

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medium term effects of the pandemic lifts, BHSF will explore other ways to enhance the value of its products.

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. This volatility resulted in modest unrealised investment losses at the end of 2020. This volatility continues into 2021 as uncertainty about the nature and timing of world economic recovery weighs on the markets.

Liquidity Impacts

The reduction in claims caused by COVID-19 has boosted the Group's cash reserves significantly. Future claims volumes (see Underwriting Impacts above) may reduce these reserve, but with existing cash reserves as well as liquid market investments there is very little risk of the BHSF Group experiencing liquidity issues.

Pension Scheme Impacts

The latest triennial review of the pension scheme's position is currently being carried out. The review is date 31 March 2020 – a significant low point for markets given the UK and other parts of the world had entered 'lockdown' due to COVID-19. Market conditions have improved significantly since that point in time and the ongoing review will take such improvements into consideration. When complete, it is likely that the triennial review will show a significantly increased deficit which will lead to an increased funding requirement from the Group. However, the cash and capital reserves built up during 2020 mean that this does not pose a significant risk to the liquidity or capital positions of the Group.

Solvency Impacts

Taking all of the above together, at this stage of the pandemic COVID-19 has resulted in an increase in BHSF's solvency position. It is expected that the next stage will see a reduction in the solvency position as claims return to normal and the Group seeks to return some value to policyholders. The Board keeps solvency ratios under review and any reduction in ratio, even an expected one, will be carefully monitored.

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APPENDIX A – ACCOUNTING POLICIES

The below notes are the main accounting policies which underpin the valuations of assets and liabilities on the BHSF Group and BHSF Limited balance sheets.

For further detail, readers can obtain copies of the BHSF Group financial statements from www.bhsf.co.uk or Companies House.

A. 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%
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B. 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%

C. 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 2020 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). In the current year, the directors have assessed the year end valuation based on the consideration offered by interested buyers of the building as a basis for fair valuation.

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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.

D. Acquisitions

The financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquired entity'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.

E. 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.

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.

F. Other financial instruments

The Group holds cash and debtor assets and long and short-term creditor liabilities 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, financial assets and liabilities are measured at their cash settlement value.

G. Stock

Immaterial balances of stock (comprising medical consumables and medicines) are valued at the lower of their cost and their net realisable value.

H. Pension schemes

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

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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.

BHSF GROUP LIMITED**SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2020****BHSF LIMITED SOLO REGULATORY TEMPLATES****S.02.01.02 Balance Sheet**

	Solvency II value £'000
Assets	
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	747
Pension benefit surplus	
Property, plant & equipment held for own use	1,372
Investments (other than assets held for index-linked and unit-linked contracts)	18,257
<i>Property (other than for own use)</i>	590
<i>Holdings in related undertakings, including participations</i>	
<i>Equities</i>	7,115
<i>Equities - listed</i>	7,098
<i>Equities - unlisted</i>	17
<i>Bonds</i>	6,817
<i>Government Bonds</i>	3,112
<i>Corporate Bonds</i>	3,705
<i>Structured notes</i>	
<i>Collateralised securities</i>	
<i>Collective Investments Undertakings</i>	3,735
<i>Derivatives</i>	
<i>Deposits other than cash equivalents</i>	
<i>Other investments</i>	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	
<i>Loans on policies</i>	
<i>Loans and mortgages to individuals</i>	
<i>Other loans and mortgages</i>	
Reinsurance recoverables from:	274
<i>Non-life and health similar to non-life</i>	274
<i>Non-life excluding health</i>	
<i>Health similar to non-life</i>	274
<i>Life and health similar to life, excluding index-linked and unit-linked</i>	
<i>Health similar to life</i>	
<i>Life excluding health and index-linked and unit-linked</i>	
<i>Life index-linked and unit-linked</i>	
Deposits to cedants	
Insurance and intermediaries receivables	1,753
Reinsurance receivables	
Receivables (trade, not insurance)	8,405
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	11,189
Any other assets, not elsewhere shown	
Total assets	41,997

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	Solvency II Value £'000
Liabilities	
Technical provisions - non-life	2,825
<i>Technical provisions - non-life (excluding health)</i>	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - health (similar to non-life)	2,825
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	2,328
<i>Risk margin</i>	497
Technical provisions - life (excluding index-linked and unit-linked)	
<i>Technical provisions - health (similar to life)</i>	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - life (excluding health and index-linked and unit-linked)	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - index-linked and unit-linked	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Other technical provisions	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	3,932
Deposits from reinsurers	
Deferred tax liabilities	178
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	
Reinsurance payables	
Payables (trade, not insurance)	2,930
Subordinated liabilities	
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	
Any other liabilities, not elsewhere shown	
Total liabilities	9,865
Excess of assets over liabilities	32,132

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S.05.01.02 Premiums, Claims and Expenses by line of business

Non-life

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	
Medical expense insurance	Total
£'000	£'000

Premiums written

<i>Gross - Direct Business</i>	40,314	40,314
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	489	489
<i>Net</i>	39,825	39,825

Premiums earned

<i>Gross - Direct Business</i>	40,188	40,188
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	489	489
<i>Net</i>	39,699	39,699

Claims incurred

<i>Gross - Direct Business</i>	20,035	29,528
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	158	533
<i>Net</i>	19,877	28,995

Changes in other technical provisions

<i>Gross - Direct Business</i>		
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>		
<i>Net</i>		

Expenses incurred

	9,431	9,431
Other expenses		
Total expenses		9,431

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S.05.02.01 Premiums, claims and expenses by country

Non-life	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
	£'000						£'000
Premiums written							
<i>Gross - Direct Business</i>	40,314						40,314
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	489						489
<i>Net</i>	39,825						39,825
Premiums earned							
<i>Gross - Direct Business</i>	40,188						40,188
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	489						489
<i>Net</i>	39,699						39,699
Claims incurred							
<i>Gross - Direct Business</i>	20,035						20,035
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	158						158
<i>Net</i>	19,877						19,877
Changes in other technical provisions							
<i>Gross - Direct Business</i>							
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>							
<i>Net</i>							
Expenses incurred	9,431						9,431
Other expenses							
Total expenses							9,431

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

S.17.01.02 Non-Life Technical Provisions

Direct business and accepted proportional reinsurance	
Medical expense insurance	Total Non-life Obligation
£'000	£'000

Technical provisions calculated as a whole

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

Technical provisions calculated as a sum of BE and RM

Best estimate

Premium provisions

Gross - Total

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

Net Best Estimate of Premium Provisions

	725	725
	725	725

Claims provisions

Gross - Total

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

Net Best Estimate of Claims Provisions

	1,603	1,603
	274	324
	1,329	1,329

Total best estimate - gross

Total best estimate - net

	2,328	2,328
	2,054	2,054

Risk margin

	497	497
--	-----	-----

Amount of the transitional on Technical Provisions

TP as a whole

Best estimate

Risk margin

Technical provisions - total

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

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

	2,825	2,825
	274	274
	2,551	2,551

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

S.19.01.21 Non-Life insurance claims

Accident year / underwriting year

Accident Year

Gross Claims Paid (non-cumulative)

(absolute amount)

	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Year	Development year											In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +			
Prior														
N-9														
N-8							46						0	46
N-7	20,900	1,167	7	1	0	1	0	0					0	22,076
N-6	21,509	1,281	59	1	0	0	0						0	22,850
N-5	22,456	1,236	13	1	0	0							0	23,706
N-4	22,411	1,322	19	2	0								0	23,754
N-3	24,058	1,785	12	1									1	25,856
N-2	26,502	1,603	6										6	28,111
N-1	27,839	1,679											1,679	29,518
N	18,848												18,848	18,848
Total													20,534	194,765

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

S.23.01.01 Own Funds

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

Ordinary share capital (gross of own shares)
 Share premium account related to ordinary share capital
 Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
 Subordinated mutual member accounts
 Surplus funds
 Preference shares
 Share premium account related to preference shares
 Reconciliation reserve
 Subordinated liabilities
 An amount equal to the value of net deferred tax assets
 Other own fund items approved by the supervisory authority as basic own funds not specified above

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
£'000	£'000	£'000	£'000	£'000
31,563	31,563			
569				569

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

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

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Deductions

Deductions for participations in financial and credit institutions

--	--	--	--	--

Total basic own funds after deductions

32,132	31,563			569
--------	--------	--	--	-----

Ancillary own funds

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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

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

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
£'000	£'000	£'000	£'000	£'000

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

Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

32,132	31,563			569
31,563	31,563			
32,132	31,563			569
31,563	31,563			

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

13,480
3,370
238%
936%

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

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

Reconciliation reserve

32,132
569
31,563

Expected profits

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

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

Total Expected profits included in future premiums (EPIFP)

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	£'000	£'000	£'000
Market risk	7,756		
Counterparty default risk	2,424		
Life underwriting risk			
Health underwriting risk	6,495		
Non-life underwriting risk			
Diversification	(4,400)		
Intangible asset risk			
Basic Solvency Capital Requirement	12,275		
Calculation of Solvency Capital Requirement			
Operational risk	1,205		
Loss-absorbing capacity of technical provisions			
Loss-absorbing capacity of deferred taxes			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
Solvency Capital Requirement excluding capital add-on	13,480		
Capital add-ons already set			
Solvency capital requirement	13,480		
Other information on SCR			
Capital requirement for duration-based equity risk sub-module			
Total amount of Notional Solvency Capital Requirements for remaining part			
Total amount of Notional Solvency Capital Requirements for ring fenced funds			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
Diversification effects due to RFF nSCR aggregation for article 304			

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

	£'000	£'000	£'000
Linear formula component for non-life insurance and reinsurance obligations			
MCR _{NL} Result	1,968		
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance		2,054	39,825
Income protection insurance and proportional reinsurance			
Workers' compensation insurance and proportional reinsurance			
Motor vehicle liability insurance and proportional reinsurance			
Other motor insurance and proportional reinsurance			
Marine, aviation and transport insurance and proportional reinsurance			
Fire and other damage to property insurance and proportional reinsurance			
General liability insurance and proportional reinsurance			
Credit and suretyship insurance and proportional reinsurance			
Legal expenses insurance and proportional reinsurance			
Assistance and proportional reinsurance			
Miscellaneous financial loss insurance and proportional reinsurance			
Non-proportional health reinsurance			
Non-proportional casualty reinsurance			
Non-proportional marine, aviation and transport reinsurance			
Non-proportional property reinsurance			

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

Linear formula component for life insurance and reinsurance obligations

MCR_L Result

--

£'000

Net (of reinsurance/SPV) best estimate and TP calculated as a whole £'000	Net (of reinsurance/SPV) total capital at risk £'000
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Obligations with profit participation - guaranteed benefits
 Obligations with profit participation - future discretionary benefits
 Index-linked and unit-linked insurance obligations
 Other life (re)insurance and health (re)insurance obligations
 Total capital at risk for all life (re)insurance obligations

Overall MCR calculation

Linear MCR
 SCR
 MCR cap
 MCR floor
 Combined MCR
 Absolute floor of the MCR

1,968
13,480
6,066
3,370
3,370
2,255

Minimum Capital Requirement

3,370

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

BHSF GROUP LIMITED CONSOLIDATED REGULATORY TEMPLATES

S.02.01.02 Balance Sheet

	Solvency II value
	£'000
Assets	
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	778
Pension benefit surplus	
Property, plant & equipment held for own use	1,602
Investments (other than assets held for index-linked and unit-linked contracts)	18,257
<i>Property (other than for own use)</i>	590
<i>Holdings in related undertakings, including participations</i>	
<i>Equities</i>	7,115
<i>Equities - listed</i>	7,098
<i>Equities - unlisted</i>	17
<i>Bonds</i>	6,817
<i>Government Bonds</i>	3,112
<i>Corporate Bonds</i>	3,705
<i>Structured notes</i>	
<i>Collateralised securities</i>	
<i>Collective Investments Undertakings</i>	3,735
<i>Derivatives</i>	
<i>Deposits other than cash equivalents</i>	
<i>Other investments</i>	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	
<i>Loans on policies</i>	
<i>Loans and mortgages to individuals</i>	
<i>Other loans and mortgages</i>	
Reinsurance recoverables from:	274
<i>Non-life and health similar to non-life</i>	274
<i>Non-life excluding health</i>	
<i>Health similar to non-life</i>	274
<i>Life and health similar to life, excluding index-linked and unit-linked</i>	
<i>Health similar to life</i>	
<i>Life excluding health and index-linked and unit-linked</i>	
<i>Life index-linked and unit-linked</i>	
Deposits to cedants	
Insurance and intermediaries receivables	1,753
Reinsurance receivables	
Receivables (trade, not insurance)	2,819
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	12,467
Any other assets, not elsewhere shown	14
Total assets	37,964

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

	Solvency II value £'000
Liabilities	
Technical provisions - non-life	2,825
<i>Technical provisions - non-life (excluding health)</i>	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - health (similar to non-life)	2,825
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	2,328
<i>Risk margin</i>	497
Technical provisions - life (excluding index-linked and unit-linked)	
<i>Technical provisions - health (similar to life)</i>	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - life (excluding health and index-linked and unit-linked)	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - index-linked and unit-linked	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Other technical provisions	
Contingent liabilities	
Provisions other than technical provisions	49
Pension benefit obligations	3,932
Deposits from reinsurers	
Deferred tax liabilities	209
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	
Reinsurance payables	
Payables (trade, not insurance)	3,980
Subordinated liabilities	
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	
Any other liabilities, not elsewhere shown	124
Total liabilities	11,119
Excess of assets over liabilities	26,845

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

S.05.01.02 Premiums, Claims and Expenses by line of business

Non-life

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	
Medical expense insurance	Total
£'000	£'000

Premiums written

<i>Gross - Direct Business</i>	40,314	40,314
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	489	489
<i>Net</i>	39,825	39,825

Premiums earned

<i>Gross - Direct Business</i>	40,188	40,188
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	489	489
<i>Net</i>	39,699	39,699

Claims incurred

<i>Gross - Direct Business</i>	20,035	29,528
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	158	533
<i>Net</i>	19,877	28,995

Changes in other technical provisions

<i>Gross - Direct Business</i>		
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>		
<i>Net</i>		

Expenses incurred

	10,526	10,526
Other expenses		
Total expenses		10,526

ADDITION REPORT

EMBER 2020

Expenses by country

Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
	£'000	£'000	£'000	£'000	£'000	
40,314						40,314
<i>Accepted</i>						
<i>accepted</i>						
489						489
39,825						39,825
40,188						40,188
<i>Accepted</i>						
<i>accepted</i>						
489						489
39,699						39,699
20,035						20,035
<i>Accepted</i>						
<i>accepted</i>						
158						158
19,877						19,877
ns						
<i>Accepted</i>						
<i>accepted</i>						

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

Basic own funds before deduction for participations in other financial sector

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
£'000	£'000	£'000	£'000	£'000

Deductions

Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities

whereof deducted according to art 228 of the Directive 2009/138/EC

Deductions for participations where there is non-availability of information (Article 229)

Deduction for participations included by using D&A when a combination of methods is used

Total of non-available own fund items

Total deductions

Total basic own funds after deductions

26,845	26,276			569
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Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand

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

Unpaid and uncalled preference shares callable on demand

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

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

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

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

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

Non available ancillary own funds at group level

Other ancillary own funds

Total ancillary own funds

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

Basic own funds before deduction for participations in other financial sector

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
£'000	£'000	£'000	£'000	£'000

Own funds of other financial sectors

Credit institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies

Institutions for occupational retirement provision

Non regulated entities carrying out financial activities

Total own funds of other financial sectors

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

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

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

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

Total available own funds to meet the minimum consolidated group SCR

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

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

26,845	26,276			569
26,276	26,276			
26,845	26,276			569
26,276	26,276			

Minimum consolidated Group SCR

Ratio of Eligible own funds to Minimum Consolidated Group SCR

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

Group SCR

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

3,370				
780%				
26,845	26,276			569
13,210				
203%				

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

26,845

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

Basic own funds before deduction for participations in other financial sector

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
£'000	£'000	£'000	£'000	£'000

Other basic own fund items

569

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

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Other non-available own funds

--

Reconciliation reserve

26,276

Expected profits

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

--

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

--

Total Expected profits included in future premiums (EPIFP)

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BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

S.25.01.22 Solvency Capital Requirement for Groups on Standard Formula

Article 112 Regular reporting

	Net solvency capital requirement	USP	Simplifications
	£'000	£'000	£'000
Market risk	7,772		
Counterparty default risk	1,818		
Life underwriting risk			
Health underwriting risk	6,495		
Non-life underwriting risk			
Diversification	(4,080)		
Intangible asset risk			
Basic Solvency Capital Requirement	12,005		
Calculation of Solvency Capital Requirement			
Adjustment due to RFF/MAP nSCR aggregation	1,205		
Operational risk			
Loss-absorbing capacity of technical provisions			
Loss-absorbing capacity of deferred taxes			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
Solvency Capital Requirement excluding capital add-on	13,210		
Capital add-ons already set			
Solvency capital requirement for undertakings under consolidated method	13,210		
Other information on SCR			
Capital requirement for duration-based equity risk sub-module			
Total amount of Notional Solvency Capital Requirements for remaining part			
Total amount of Notional Solvency Capital Requirements for ring fenced funds			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
Diversification effects due to RFF nSCR aggregation for article 304			
Minimum consolidated group solvency capital requirement	3,370		

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

Article 112

Regular reporting

Net solvency capital requirement	USP	Simplifications
£'000	£'000	£'000

Information on other entities

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

Overall SCR

SCR for undertakings included via D&A

Solvency capital requirement

13,210

BHSF GROUP LIMITED**SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2020****S.32.01.22 Undertakings in the scope of the Group**

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking
GB	213800ATVVLFNW9OT12	LEI	BHSF Group Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC
GB	2138002IE1X75AGYZC39	LEI	BHSF Limited	Non-life insurance undertaking
GB	213800VPE916J6DCPG03	LEI	BHSF Employee Benefits Limited	Other
GB	213800GJS3UCHZMDAT34	LEI	BHSF Management Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35
GB	2138007WVTWYTYNOKT81	LEI	BHSF Corporate Healthcare (Holdings) Limited	Other
GB	213800HT1C514KKWPL90	LEI	BHSF Occupational Health Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35
GB	213800VHCS69RC91Z391	LEI	BHSF Medical Practice Limited	Other
GB	213800KAIX4PN5SSGY29	LEI	Nexus Healthcare Limited	Other

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2020

Legal form	Category (mutual/non mutual)	Supervisory Authority	Criteria of influence					Inclusion in the scope of Group supervision		Group solvency calculation
			% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	
Limited by guarantee	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by guarantee	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method