

BHSF LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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BHSF LIMITED

COMPANY INFORMATION

Directors

Dr Paul Kanas
Peter J Maskell
William G Begg
Geoffrey M W Guerin
Christopher M Gunnell
Brian Hall
David K Nuttall
Michael P Sims
Charlotte M Taylor
Jill Bonehill
Ian R Galer

Secretary

Charlotte M Taylor

Company Number

35500

Registered Office

Gamgee House
2 Darnley Road
Birmingham
B16 8TE

Auditor

BDO LLP
125 Colmore Row
Birmingham
B3 3SD

BHSF LIMITED

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BHSF LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2014

Principal business

The Company's principal business is the provision of health cash plans.

Review of business

Total gross insurance premiums increased in 2014 by 3.3 % to £32.3m compared to a 1.4% increase in 2013 but the surplus on the technical account only rose by £0.1m to £0.2m due to a 3.2% increase in earned premiums, being offset by a 2.9% increase in claims and a 3.6% increase in operating expenses.

Investment markets had a mixed year in 2014 resulting in unrealised gains of £0.2m (2013: £0.74m) and realised losses of £0.02m (2013: gains of £0.2m).

The improved technical account surplus and mixed investment performance result in a surplus on ordinary activities before taxation of £0.9m (2013: £1.5m).

An application to the High Court has been made to transfer in all of the health cash plan policies of the subsidiary company Cash4Health Limited. If the application is approved the policies and business are likely to be transferred over in 2015 and Cash4Health Limited will be wound up shortly afterwards.

On 1 May 2014, the sales and marketing staff of the Company and the related activity were transferred to BHSF Services Limited, another member of the BHSF Group. As a result, staff costs have fallen from £5.6m in 2013 to £3.8m in 2014, while commissions paid have increased from £0.7m in 2013 to £3.3m in 2014. The overall impact of this move on the results of the Company are quite small as there are other savings of non-staff costs and an increase in management charges received from BHSF Services Limited.

The health cash plans market is a declining one and the margins on this business are very narrow. Despite this the Company has continued to produce small increases in premium income, partly as a result of undertaking a general price increase during the year, the first since 2010. The directors are confident that the Company will continue to maintain premium income and produce operating surpluses in the foreseeable future.

Risks and uncertainties

The Company actively manages financial risk by using professional advisors to manage its investment portfolio and sets parameters within which they must operate. In order to balance interest rate risk and equity risk, the board has decided on a policy of holding a balanced financial investment portfolio that retains at least 50% of its investments, in normal circumstances, as either fixed interest securities or cash deposits, with the remainder in equity based investments. To manage counterparty risk, the board also sets limits on the investment exposure to a single counterparty. The investments held by the Company and the investment strategy are subject to regular review through monthly investment reports and consideration at each Board meeting.

Claims risks are low with claims on health cash plans being generally low in value and short term in nature. The Company also regularly reviews claim levels and margins on each of its health cash plan schemes and adjusts premium rates where appropriate.

The Directors expect the health cash plan market to remain very competitive for the foreseeable future but are confident that the Company will continue to generate a good margin on its business.

BHSF LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2014

Risks and uncertainties (continued)

Solvency II will lead to a fundamental change in the way that insurance companies are required to calculate their regulatory capital and manage risk. It has been confirmed that the new rules will come into force in January 2016. The Company is progressing its preparations for Solvency II and early indications are that the Company will remain strongly solvent under the new calculations of regulatory capital requirements.

In other respects the Company is exposed to the usual credit risk and cash flow risk associated with collecting premiums from corporate customers in arrears and manages this through standard credit control procedures. A risk register has been produced to assist in the mitigation and management of risks and this is kept under regular review and monitored by the Risk Committee.

This report was approved by the Board on 4 March 2015 and signed on its behalf by:



Charlotte M Taylor
Company Secretary
4 March 2015

BHSF LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2014

The Directors submit their report and audited financial statements for the year ended 31 December 2014.

The review of the business and the principal risks and uncertainties are not shown in the Directors' Report as they are shown in the Strategic Report in accordance with s414C(11) of the Companies Act 2006.

Directors

The Directors who served during the year were as follows:

| | |
|-----------------------|------------------------------|
| Dr Paul Kanas | |
| Peter J Maskell | |
| William G Begg | |
| Geoffrey M W Guerin | - appointed 1 February 2014 |
| Christopher M Gunnell | |
| Brian Hall | |
| David K Nuttall | |
| Michael P Sims | |
| Charlotte M Taylor | |
| Nicholas A Wright | - resigned 31 August 2014 |
| Jill Bonehill | - appointed 15 May 2014 |
| Ian R Galer | - appointed 1 September 2014 |

Dividend

Dividends of £100,000 (2013: £2,000,000) were proposed and paid during the year. No further dividends are proposed.

Political donations

The Company makes no political donations.

Statement regarding information given to the auditor

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

- there is no relevant audit information of which the Company's auditor is unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This report was approved by the Board on 4 March 2015 and signed on its behalf by:


Charlotte M Taylor
Company Secretary
4 March 2015

BHSF LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

YEAR ENDED 31 DECEMBER 2014

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 UK 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.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

BHSF LIMITED

We have audited the financial statements of BHSF Limited for the year ended 31 December 2014 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Accumulated Fund, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

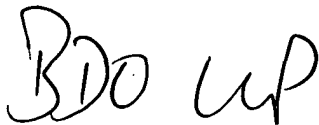
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

BHSF LIMITED (continued)

Matters on which we are required to report by exception

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

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



**Stephen Hale (Senior statutory auditor)
for and on behalf of BDO LLP, Statutory auditor**

**Birmingham, UK
5 March 2015**

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

BHSF LIMITED
INCOME AND EXPENDITURE ACCOUNT – TECHNICAL ACCOUNT
YEAR ENDED 31 DECEMBER 2014

| | Notes | 2014 £000 | 2013 £000 |
|------------------------------------------------------------------------|-------|---------------|---------------|
| Technical account - General Business | | | |
| Premiums | | | |
| Gross premiums written | 2 | 32,315 | 31,274 |
| Outward reinsurance premiums | | (513) | (368) |
| | | <u>31,802</u> | <u>30,906</u> |
| Change in the provision for unearned premiums | | <u>48</u> | <u>(32)</u> |
| Earned premiums net of reinsurance | | 31,850 | 30,874 |
| Allocated investment return transferred from the non-technical account | | 35 | 33 |
| Deduct Claims | | | |
| Gross amount | | 23,630 | 23,041 |
| Reinsurer's share | | (184) | (110) |
| | | <u>23,446</u> | <u>22,931</u> |
| Change in the provision for claims outstanding; | | | |
| Gross amount | | 269 | 99 |
| Reinsurer's share | | (86) | (75) |
| | | <u>183</u> | <u>24</u> |
| Claims incurred net of reinsurance | | 23,629 | 22,955 |
| | | <u>8,256</u> | <u>7,952</u> |
| Net operating expenses | | 8,038 | 7,761 |
| Surplus on the technical account | | <u>218</u> | <u>191</u> |

BHSF LIMITED

INCOME AND EXPENDITURE ACCOUNT – NON-TECHNICAL ACCOUNT

YEAR ENDED 31 DECEMBER 2014

| | Notes | 2014 £000 | 2013 £000 |
|------------------------------------------------------------------|-------|-------------------|---------------------|
| Non technical account | | | |
| Surplus on technical account | | 218 | 191 |
| Investment returns | | | |
| Investment income | | 575 | 545 |
| Realised (loss)/gain on investments | | (16) | 151 |
| | | <u>559</u> | <u>696</u> |
| Unrealised gains on investments | | 184 | 735 |
| Investment expenses and charges | | (75) | (75) |
| Allocated investment return transferred to the technical account | | (35) | (33) |
| Other charges – gift aid | | (66) | (55) |
| Net interest return on pension scheme liability | 4c) | 125 | - |
| Surplus on ordinary activities before taxation | 3 | <u>910</u> | <u>1,459</u> |
| Tax charge on surplus on ordinary activities | 6 | (82) | (276) |
| Surplus for the financial year | | <u><u>828</u></u> | <u><u>1,183</u></u> |

All the above amounts relate to continuing operations.

BHSF LIMITED

INCOME STATEMENT AND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2014

| | Notes | 2014 | 2013 |
|------------------------------------------------------|--------------|----------------|--------------|
| | | £000 | £000 |
| Surplus for the financial year | | 828 | 1,183 |
| Actuarial (losses)/gains | 4c | (1,244) | 612 |
| Deferred tax credit/(charge) on actuarial gain | 4c | 203 | (175) |
| Revaluation of investment in subsidiary | 8 | 734 | - |
| Total recognised gains for the financial year | | 521 | 1,620 |

RECONCILIATION OF MOVEMENT IN ACCUMULATED FUND

| | Notes | 2014 | 2013 |
|-----------------------------------------------------|--------------|----------------|---------------|
| | | £000 | £000 |
| Surplus for the financial year | | 828 | 1,183 |
| Dividends paid | 12 | (100) | (2,000) |
| Net surplus/(deficit) for the financial year | | 728 | (817) |
| Other recognised (losses) and gains | | (1,041) | 437 |
| | | (313) | (380) |
| Accumulated fund at beginning of year | | 25,802 | 26,182 |
| Accumulated fund at end of year | | 25,489 | 25,802 |

BHSF LIMITED

BALANCE SHEET

31 DECEMBER 2014

| | Notes | 2014 £000 | 2013 £000 |
|----------------------------------------------------|-------|---------------|---------------|
| ASSETS | | | |
| Investments | | | |
| Land and buildings | 7 | 1,740 | 1,725 |
| Investment in subsidiaries | 8 | 8,532 | 7,798 |
| Other financial investments | 9 | 16,327 | 16,264 |
| | | 26,599 | 25,787 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | | 1,683 | 1,590 |
| Amounts due from group undertakings | | 37 | 8 |
| Other debtors | 10 | 10 | 10 |
| | | 1,730 | 1,608 |
| Other assets | | | |
| Tangible fixed assets | 11 | 340 | 321 |
| Cash at bank and in hand | | 1,570 | 1,177 |
| | | 1,910 | 1,498 |
| Prepayments and accrued income | | | |
| Accrued interest and rent | | - | 15 |
| Other prepayments and accrued income | | 126 | 270 |
| | | 126 | 285 |
| Total assets | | 30,365 | 29,178 |

BHSF LIMITED

BALANCE SHEET (continued)

31 DECEMBER 2014

| | Notes | 2014 | | 2013 | |
|------------------------------------------------------------------------------------|-------|--------|---------------|--------|---------------|
| | | £000 | £000 | £000 | £000 |
| LIABILITIES | | | | | |
| Accumulated fund | | 25,489 | | 25,802 | |
| Revaluation Reserve | 13 | 734 | | - | |
| | | | 26,223 | | 25,802 |
| Technical provisions | | | | | |
| Provision for unearned premiums | | | 258 | | 306 |
| Claims outstanding; | | | | | |
| Gross amount | | 1,774 | | 1,543 | |
| Reinsurance amount | | (188) | | (103) | |
| | | | 1,586 | | 1,440 |
| | | | 1,844 | | 1,746 |
| Provision for other risks - provisions for pensions and similar obligations | | | | | |
| Pension scheme liability net of deferred tax | 4c) | 813 | | - | |
| | | | 813 | | - |
| Creditors | | | | | |
| Creditors arising out of reinsurance operations | | - | | - | |
| Amounts owed to group undertaking | | 477 | | 1 | |
| Other creditors including taxation and social security | | 791 | | 1,175 | |
| | | | 1,268 | | 1,176 |
| Accruals and deferred income | | | 217 | | 454 |
| Total liabilities | | | 30,365 | | 29,178 |

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 4 March 2015.


 Peter J Maskell
 Director

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. Accounting policies

a) Basis of preparation

Except as detailed below, the financial statements have been prepared in accordance with the provisions of SI 2008 No 410 Schedule 3 of the Companies Act 2006, applicable accounting standards and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 and amended in December 2006.

Compliance with Statement of Standard Accounting Practice 19 "Accounting for Investment Properties" requires departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of the departure is given in the accounting policy note relating to land and buildings.

The Company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

b) Premiums

Gross premiums written are health cash plan and personal accident premiums excluding insurance premium tax.

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

c) Claims

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

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

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

d) Tangible fixed assets

Tangible fixed assets are stated at 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:

| | |
|-----------------------|-----|
| Fixtures and fittings | 10% |
| Computer equipment | 20% |
| PC software | 50% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

e) Investments

Listed investments are included in the balance sheet at mid-market value at the balance sheet date. Investments in subsidiary undertakings are included at the Directors' estimate of their current market value.

f) Land and buildings

Land and buildings other than those occupied by the Company, 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 2014 by Fisher German LLP (Chartered Surveyors).

Land and buildings occupied by the Company 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 2014 by Sellers (Chartered Surveyors).

Under the Companies Act 2006 fixed assets are required to be depreciated to their estimated residual value over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19 that no depreciation should be provided in respect of such investments. The Company considers that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted.

Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

Depreciation is provided on freehold buildings used by the Company 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 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.

Freehold land is not depreciated.

g) Investment income

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

g) Investment income (continued)

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

h) Unrealised gains and losses

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

i) Acquisition costs

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

j) Leases

Operating lease rentals are charged to the income and expenditure account on a straight line basis over the period of the lease.

k) Deferred tax

Deferred tax is provided in full on timing differences which result in an obligation to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

l) Pension costs

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

Defined benefit scheme:-

For the defined benefit scheme any increase in the present value of the liabilities of the scheme expected to arise from the current or past service of employees in the year is charged in the technical account. The expected return on the scheme's assets and the expected increase during the year in the present value of the scheme's liabilities are included as interest payable or receivable in the non-technical account. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Pension scheme assets, to the extent they are considered recoverable, and pension scheme liabilities, are recognised in the balance sheet and represent the difference between the market value of scheme assets and the present value of scheme liabilities, net of deferred taxation. Pension scheme liabilities are determined on an actuarial basis using the projected unit method and are discounted at a rate using the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Defined contribution scheme:-

The contributions to a group personal pension scheme have been charged to the technical account in the year to which they relate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

m) Reinsurance

The Company partially reinsures the Personal Accident risk within health cash plans under a reinsurance agreement. Reinsurance premiums are accounted for in the Technical Account on the same basis as the relevant health cash plan premiums. Similarly reinsurance recoveries on claims payable are accounted for on the same basis as the relevant health cash plan claims.

Reinsurance assets represent amounts receivable from the reinsurer for ceded insurance liabilities.

Reinsurance liabilities represent either amounts payable to the reinsurer in respect of outstanding claims or reinsurance premium amounts payable.

2. Gross premiums written

| | 2014 £000 | 2013 £000 |
|----------------------------|---------------|---------------|
| Total insurance premiums | 34,215 | 33,112 |
| Less insurance premium tax | (1,900) | (1,838) |
| Gross premiums written | <u>32,315</u> | <u>31,274</u> |

3. Surplus on ordinary activities before taxation

| | 2014 £000 | 2013 £000 |
|------------------------------------------------------------------------------------------------|--------------|--------------|
| The surplus on ordinary activities before taxation is arrived at after charging the following: | | |
| Depreciation | 127 | 109 |
| Operating leases – motor vehicles | 69 | 230 |
| Commissions payable | 3,286 | 709 |
| Auditor's fees: | | |
| - Fees payable in respect of the audit of the Company's accounts | <u>29</u> | <u>26</u> |

The Company has not disclosed amounts for non-audit remuneration as it is included in the consolidated accounts of the Parent Company. The Group accounts are required to comply with the statutory disclosure requirements.

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

In addition to commissions payable disclosed above, net operating expenses include £937,000 (2013: £2,863,000) of acquisition expenses. The decrease in this figure is the result of the transfer of sales and marketing staff from the Company to BHSF Services Ltd.

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

4. Employee costs and numbers

| | 2014 £000 | 2013 £000 |
|---------------------------|--------------|--------------|
| a) Employee costs: | | |
| Wages and salaries | 3,144 | 4,721 |
| Social security costs | 342 | 496 |
| Pension costs | 313 | 410 |
| | <u>3,799</u> | <u>5,627</u> |

The pension costs disclosed above are the costs incurred in respect of the defined contribution pension scheme available to employees of the Company. Costs in respect of the defined contribution pension scheme are discussed in note 4c).

On 1 May 2014, the sales and marketing staff of the Company and the related activity transferred from the Company to BHSF Services Limited, another member of the BHSF Group. As a result of this, staff costs for the year have fallen while commissions payable have increased (note 3).

b) The average number of employees during the year was:

| | | |
|-----------------------------------|------------|------------|
| Sales and marketing | 20 | 59 |
| Registration, claims and helpdesk | 33 | 42 |
| Management and administration | 51 | 47 |
| | <u>104</u> | <u>148</u> |

The average number of sales and marketing staff has decreased during the year because on 1 May 2014, the sales and marketing staff of BHSF Limited transferred employment into BHSF Services Limited, another member of the BHSF group.

c) Pension commitments:

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

The overall expected long-term return on scheme assets is a weighted average of the expected long-term returns of equity securities, debt securities and other assets. The returns on each category, after allowing for scheme expenses, are as follows;

- The redemption yield on UK government fixed interest bonds is currently 2.4% (2013: 3.5%). The yield on AA rated corporate bonds is 3.4% (2013: 4.4%). Weighted by the relative proportion of each within the portfolio the expected rate of return on the bond investment is 3.1% (2013: 4.1%).
- The long-term returns on equities is assumed to outperform gilts by 4.5% (2013: 3.0%) giving an expected rate of return of 6.9% (2013: 7.1%).
- Cash is expected to yield 0.5% (2013: 0.5%).

BHSF LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****YEAR ENDED 31 DECEMBER 2014**

The amounts recognised in the balance sheet are as follows:

| | 2014 | 2013 |
|-------------------------------------|-----------------|-----------------|
| | £000 | £000 |
| Present value of funded obligations | (11,962) | (10,389) |
| Fair value of scheme assets | 10,946 | 10,497 |
| (Deficit)/Surplus in the scheme | (1,016) | 108 |
| Restriction on surplus | - | (108) |
| | (1,016) | - |
| Related deferred tax asset | 203 | - |
| Net (deficit)/surplus recognised | (813) | - |

The amounts recognised in the Income and Expenditure account are as follows:

| | 2014 | 2013 |
|----------------------------------|--------------|--------------|
| | £000 | £000 |
| Current service cost | - | - |
| Interest on obligation | (451) | (418) |
| Expected return on scheme assets | 576 | 418 |
| Past service cost | (45) | - |
| Total credit | 80 | - |

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

| | 2014 | 2013 |
|------------------------------------|---------------|---------------|
| | £000 | £000 |
| Opening defined benefit obligation | 10,389 | 10,325 |
| Interest cost | 451 | 418 |
| Actuarial loss/(gain) | 1,350 | (124) |
| Past service cost | 45 | 36 |
| Benefits paid | (273) | (266) |
| Closing defined benefit obligation | 11,962 | 10,389 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

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

| | 2014 £000 | 2013 £000 |
|-------------------------------------|---------------|---------------|
| Opening fair value of scheme assets | 10,497 | 9,563 |
| Expected return | 576 | 465 |
| Actuarial (loss)/gain | (2) | 547 |
| Contributions by employer | 148 | 188 |
| Benefits paid | (273) | (266) |
| | <u>10,946</u> | <u>10,497</u> |

The total amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £1,858,000 (2013: £614,000).

The Company expects to contribute nil (2013: £150,000) to its defined benefit scheme in 2015.

The most recently-completed triennial actuarial valuation of the defined benefit scheme was performed by an independent actuary at 31 March 2014.

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

| | 2014 | 2013 |
|--------------------------------|------|------|
| European including UK equities | 31% | 32% |
| European including UK bonds | 38% | 32% |
| Overseas equities | 26% | 23% |
| Overseas bonds | - | 7% |
| Cash | 5% | 6% |

The principal actuarial assumptions used at the balance sheet date (expressed as weighted averages) are:

| | 2014 | 2013 |
|------------------------------|------|------|
| Future pension increases | 2.1% | 2.5% |
| Deferred pension increases | 3.0% | 3.0% |
| Discount rate at 31 December | 3.6% | 4.4% |
| CPI inflation | 2.1% | 2.5% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

As part of the actuarial valuation carried out at 31 March 2014 the mortality experience of the scheme was reviewed. The mortality rate assumptions have been reviewed again this year and under the mortality tables adopted the assumed life expectancy at age 65 is as follows:

| | 2014 | 2013 |
|-----------------------|------|------|
| Retiring today: | | |
| Males | 22 | 22 |
| Females | 24 | 24 |
| Retiring in 20 years: | | |
| Males | 24 | 24 |
| Females | 26 | 26 |

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

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---------------------------------------------|----------|----------|----------|---------|----------|
| | £'000 | £'000 | £'000 | £'000 | £000 |
| Defined benefit obligation | (11,962) | (10,389) | (10,325) | (9,401) | (10,244) |
| Scheme assets | 10,946 | 10,497 | 9,563 | 8,862 | 8,065 |
| Surplus/(deficit) | (1,016) | 108 * | (762) | (539) | (2,179) |
| Experience adjustment on scheme liabilities | (8) | (4) | (34) | 10 | (96) |
| Experience adjustment on scheme assets | 45 | 547 | 332 | 125 | 611 |

* The surplus of £108,000 in 2013 was not recognised in the financial statements in accordance with FRS17.

There are no commitments in respect of the defined contribution scheme at the year end (2013: nil).

5. Directors' emoluments & benefits

| | 2014 | 2013 |
|--------------------------------------------------|------------|--------------|
| | £000 | £000 |
| Directors' emoluments including benefits in kind | 853 | 923 |
| Compensation for loss of office | - | 62 |
| Contributions to a defined contribution scheme | 91 | 118 |
| | <u>944</u> | <u>1,103</u> |
| Highest paid Director | | |
| Remuneration | 250 | 240 |

The Company made contributions on behalf of Directors to the following pension schemes during the year;

| | 2014 | 2013 |
|-----------------------------|--------|--------|
| | Number | Number |
| Defined benefit scheme | - | - |
| Defined contribution scheme | 8 | 6 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

6. Taxation

(a) Analysis of charge in year:

Corporation tax at 21% (2013: 23%):

Current tax charge

Deferred tax

Taxation charge

2014
£0002013
£000

82

244

-

32

82

276

(b) Factors affecting the tax charge for the year:

The tax assessed for the year is less (2013: less) than would be expected by multiplying the surplus on ordinary activities by the standard rate of corporation tax in the UK of 21% (2013: 23%). The differences are explained below:

| | 2014 £000 | 2013 £000 |
|-----------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Surplus on ordinary activities before tax | 910 | 1,459 |
| Surplus on ordinary activities before tax multiplied by the standard rate of corporation tax at 21% (2013: 23%) | 191 | 336 |
| Effects of: | | |
| Income not subject to corporation tax | (66) | (70) |
| Fixed assets timing differences | - | (25) |
| Effect of pensions accounting treatment | (48) | (35) |
| Other differences | 5 | 38 |
| Current tax charge | 82 | 244 |

(c) Deferred tax

The Company had deferred tax assets as follows:

| | 2014 £000 | 2013 £000 |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | 9 | 9 |
| Short-term timing differences | 1 | 1 |
| | 10 | 10 |

The deferred tax asset at 31 December 2014 and 31 December 2013 is carried forward within other debtors.

The movement on the deferred tax asset is as follows:

| | 2014 £000 | 2013 £000 |
|--------------------------------------------|--------------|--------------|
| As at 1 January | 10 | 42 |
| Movement on Income and Expenditure account | - | (32) |
| As at 31 December | 10 | 10 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

(d) Factors that may affect future tax charges

Corporation tax of £130,000 (2013: £116,000) would be payable if the land and buildings were sold at their market value at the year end. There are no other factors that may affect future tax charges other than future tax rate reductions.

The Chancellor has announced a reduction in the main rate of UK corporation tax to 20% with effect from 1 April 2015. These changes became substantively enacted on 2 July 2013 and therefore future tax charges will be lower as a result.

7. Land and buildings

| | Owner occupied freehold property £000 | Other freehold property £000 | Total £000 |
|----------------------------------------|---------------------------------------------------|---------------------------------------|---------------|
| At market value: | | | |
| At 1 January 2014 | 1,200 | 525 | 1,725 |
| Revaluation | (100) | 115 | 15 |
| At 31 December 2014 | <u>1,100</u> | <u>640</u> | <u>1,740</u> |
| At cost: | | | |
| At 1 January 2014 and 31 December 2014 | <u>2,103</u> | <u>20</u> | <u>2,123</u> |

8. Subsidiary undertakings

| | 2014 £'000 | 2013 £000 |
|------------------------------|---------------|--------------|
| At market value on 1 January | 7,798 | 7,798 |
| Revaluation | 734 | - |
| At market value 31 December | <u>8,532</u> | <u>7,798</u> |

The Company is the sole member of Cash4Health Limited which is incorporated in England and Wales and provides health cash plans.

As noted in the Directors' Report, an application to the High Court has been made to transfer the policies within Cash4Health Limited to BHSF Limited by a Part VII transfer. The High Court hearing is due to take place on 29 May 2015.

If the application is approved the net assets and the trade of Cash4Health Limited are likely to be transferred over to BHSF Limited in 2015. Cash4Health Limited will then be wound up.

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

9. Other financial investments

| | Market value 2014 £000 | Market value 2013 £000 | Cost 2014 £000 | Cost 2013 £000 |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|----------------------|----------------------|
| Listed on a recognised investment exchange: shares and other variable yield securities and units in unit trusts | | | | |
| Ordinary shares | 7,174 | 6,532 | 6,390 | 5,218 |
| Unit trusts | 1,584 | 3,193 | 1,447 | 2,916 |
| Debt securities and other fixed income securities: | | | | |
| British Government stocks | 3,368 | 3,239 | 2,965 | 2,908 |
| International bonds | 3,244 | 2,776 | 3,222 | 2,819 |
| | 15,370 | 15,740 | 14,024 | 13,861 |
| Deposits with credit institutions | 940 | 507 | 940 | 507 |
| Other | 17 | 17 | 17 | 17 |
| | 16,327 | 16,264 | 14,981 | 14,385 |

10. Other debtors

| | 2014 £000 | 2013 £000 |
|-------------------|--------------|--------------|
| Deferred taxation | 10 | 10 |
| | 10 | 10 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

11. Tangible fixed assets

| | | Computer equipment £000 | Other equipment £000 | Total £000 |
|------------------------|-------|-------------------------------|----------------------------|---------------|
| Cost: | | | | |
| At 1 January 2014 | 1,616 | 724 | 892 | 1,616 |
| Additions | 146 | 38 | 108 | 146 |
| At 31 December 2014 | 1,762 | 762 | 1,000 | 1,762 |
| Depreciation: | | | | |
| At 1 January 2014 | 1,295 | 574 | 721 | 1,295 |
| Charge for the period | 127 | 65 | 62 | 127 |
| At 31 December 2014 | 1,422 | 639 | 783 | 1,422 |
| Net book value: | | | | |
| 31 December 2014 | 340 | 123 | 217 | 340 |
| 31 December 2013 | 321 | 150 | 171 | 321 |

12. Dividends paid

| | 2014 £000 | 2013 £000 |
|------------------|--------------|--------------|
| Interim dividend | 100 | 1,000 |
| Final Dividend | - | 1,000 |
| | 100 | 2,000 |

13. Revaluation Reserve

| | 2014 £000 | 2013 £000 |
|------------------------------------------------------|--------------|--------------|
| Balance at 1 January | - | - |
| Revaluation of investment in subsidiary (see note 8) | 734 | - |
| Balance at 31 December | 734 | - |

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2014

14. Lease obligations

The Company had commitments to make payments during the next 12 months under other non-cancellable operating leases which expire as follows:

| | 2013 £000 | 2014 £000 | 2013 £000 |
|----------------------------------------|--------------|--------------|--------------|
| Within one year | 34 | 17 | 34 |
| In the second to fifth years inclusive | 107 | 133 | 107 |
| | | <u>150</u> | <u>141</u> |

15. Capital commitments

The Company had commitments to make payments of £21,000 (2013: nil) during the next 12 months in respect to capital asset purchases.

16. Controlling party and parent undertaking

In the opinion of the Directors, BHSF Group Limited is the Company's Parent and ultimate Parent Company and controlling party. The parent undertaking of the largest and smallest groups for which consolidated accounts are prepared is BHSF Group Limited. Consolidated accounts are available from Companies House, Cardiff CF4 3UZ.

17. Related party transactions

The Company is exempt under Financial Reporting Standard 8 "Related Party Transactions" from disclosing transactions with other group companies.

There were no other related party transactions in the year.