ANNUAL REPORT 2018

Simplyhealth

Contents

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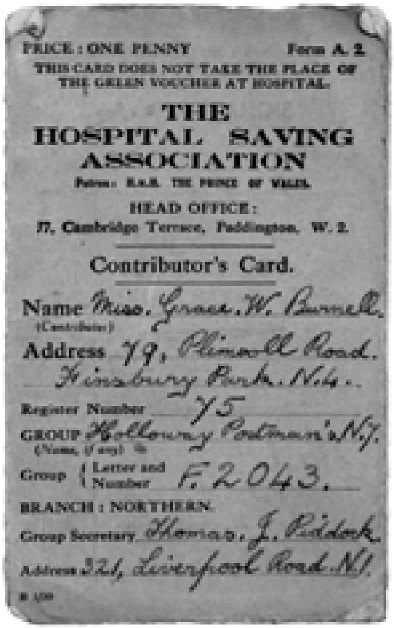
Health is fundamental.

Our story


PRICE: ONE PENNY Form A. 2

THIS CARD DOES NOT TAKE THE PLACE OF THE GREEN VOUCHER AT HOSPITAL.

THE HOSPITAL SAVING ASSOCIATION

Patron: H.R.H. THE PRINCE OF WALES.

HEAD OFFICE: 37, Cambridge Terrace, Paddington, W. 2.

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Group Secretary Thomas. J. Riddock

Address 321, Liverpool Road. N.1

But we understand that getting help with health **isn't always easy.**

It can be expensive, it can feel like it takes longer than it should and getting it can vary depending on where you live.

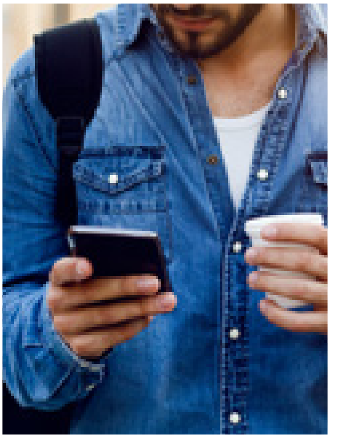
We're an organisation that has been helping people overcome these barriers since 1872 because we believe that no-one should go without the healthcare support they need.

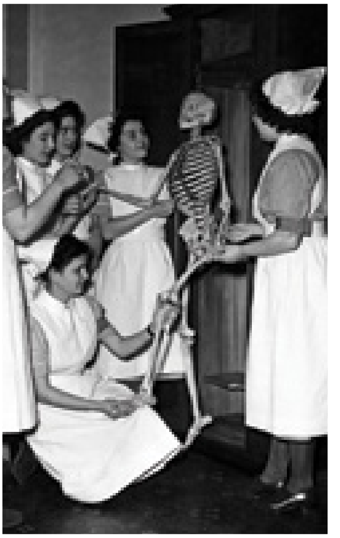
We help over three and a half million individuals, families, employees and pets to get support with and be proactive about their own health and wellbeing through our health plans, dental plans and pet health plans, which help towards the cost of healthcare.

We help millions more through our charitable partnerships and our work with public bodies to understand how we can improve healthcare for the long-term. From providing five-year-olds with their first toothbrush, to supporting the elderly on their return home from hospital, we can help reduce health inequality so that everyone can get the health support they need now and in the future.

Chairman's Statement

Reshaping for growth



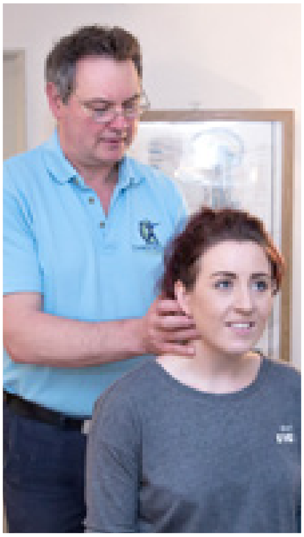


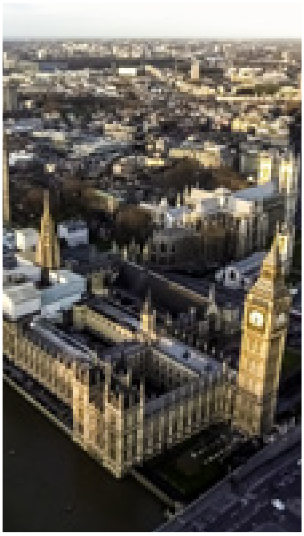
I do hope that from reading this account of our financial performance you will see how we are fundamentally changing the way we do business to get closer to our customers and improve access to healthcare for many more people. Ultimately we are reshaping our business for growth, and in 2018 laid many of the foundations we need to succeed.

Transforming a business requires something of each and every person who is part of it, and of course that includes the Board. I have always been proud to be part of Simplyhealth and to have a role in shaping its future, but I'm mindful that this requires continual challenge of myself and my fellow Board members.

In 2018 we spent time as a Board examining the different skills, attributes and experience we need to ensure Simplyhealth fulfils its ambition. I was delighted to welcome two new Non-Executive Directors; Gil Baldwin brings a wealth of experience in health and care, while John Maltby has a strong and diverse background in financial services. It's vital that we embrace different perspectives and backgrounds, as well as personality and work styles if we are to adapt to the changing world around us. Simplyhealth isn't alone in facing tough competition in an uncertain economic climate. These are the realities of running a business in today's complex and volatile world.

The Board cannot and should not stay still and towards the end of 2018 Ben Kent took the decision to move on with Debbie Beaven taking up the role as CFO on an interim basis.





At the start of 2019 Alex Pike decided to step down as a Non-Executive Director. Both Ben and Alex were valued members of the Board and I would like to thank them for their contribution to the story so far.

The role of the Board is collectively to take responsibility for ensuring Simplyhealth is successful for the benefit of our stakeholders, setting the strategic direction, providing entrepreneurial leadership and overseeing the effective management of key risks faced by the business. We are accountable for ensuring effective governance over our finances, investments, risks and ensuring that we stay true to our purpose of improving access to healthcare. The Board is a strong and experienced team and I am confident that we will continue to effectively tackle economic, political, technological and societal challenges and steward Simplyhealth towards a bright future.

I've been Chairman of Simplyhealth during an unprecedented time in its long history. Customer needs are changing at a faster rate and technology is presenting new opportunities that just five years ago would have felt impossible. We know the UK health system has become extremely complex, making it difficult for people trying to access services such as mental health support or treatment for musculoskeletal conditions.

The NHS is now much clearer about the transformation it needs to make over the next decade and will be focusing more on prevention, community healthcare and digital services. This presents an opportunity for us to support the NHS, as we have done since its inception, and help more people get the healthcare they need.

This is the reason we exist.

Ken

Ken Piggott
Chairman

Simplyhealth in numbers

£0.9m community investment in charitable activities

268 hours colleague volunteering

2.5m health plan claims

£154.1m value of claims paid

3.7m customers

Five dental partnerships

2018

Chief Executive's Report

Delivering more powerfully on our Purpose

It's my honour to be writing my fifth Report to you as Chief Executive of Simplyhealth. Simplyhealth is driven by a strong and powerful purpose – to improve access to healthcare.

Fifteen years ago I joined our organisation because of this same purpose and it's why, five years ago, when I became Chief Executive, that I signalled my intention to invest in our business. Throughout this time our philosophy of always testing and learning, recognising that some things will work, while others may not, will enable us to evolve and transform so we can help millions more people for the long term. Five years ago I also pledged to you that we would do all of that without ever losing sight of our values and what we value most - the trust our customers place in us.

One of the biggest decisions I've taken as Chief Executive during this time was the sale of the private medical insurance part of our business. Driven by our purpose and the inequalities we saw in access to healthcare, this decision unlocked our business potential. It enabled us to focus on new areas where we could make a bigger difference for our colleagues, customers and communities. I'm pleased to report that since then we have welcomed 2.8m new customers to Simplyhealth and our overall customer base has increased by 856,000.

A great addition during this time, in 2015, was our investment in The Animal Healthcare Company Ltd to complement our pet health plans offering. In that time it has generated £6.5m in pre-tax profits for Simplyhealth. More recently the veterinary side of our business has seen fantastic growth in 2018, as customer numbers increased by 283,000 and where today we now cover over 1 million pets.

I'm proud that we now support 3.7m people, their families and their pets with their healthcare. In 2018, we paid 2.5m health plan claims with a total value of £154.1m. In the last five years we have paid 14.8m health plan claims, with a total value of £813.9m. I know through the regular conversations I have with our customers that they continue to value what we stand for and our products, which support them to take a proactive and preventative approach to their healthcare.

It's important to me that to get the very best value for our customers, we always focus on our costs at every level. It's something that I know every single one of our colleagues strives for, to help us run our business effectively. As a result of this, I'm pleased to report that in 2018 we delivered an underlying operating profit of £18.7m, see page 41.

As well as running our business in a cost conscious way, I'm immensely proud of our colleagues and their devotion in helping us to deliver on our commitment - to invest 10% of our pre-tax profits (before goodwill amortisation and exceptional items) every year into the community. In 2018 this has continued on a local and national level. I'm particularly delighted that since 2013, together we've invested £6.2m to support health-related causes across the country, to help tackle health inequalities.

This has only been possible because of our fantastic team of colleagues. My role as Chief Executive is to enable every one of our 1,226 colleagues to have a fulfilling and rewarding working life at Simplyhealth. That's why in 2018 we invested an additional £1m in them and their futures. We're continuing to equip and develop them to personally grow, to help their future careers, as well as support our growth opportunities as a business today. Our colleagues and their new skills, experiences and capabilities are now being rewarded and recognised with a market leading reward and benefits proposition that truly sets us apart.

Our offering provides every colleague with the choice and flexibility they deserve to meet their individual health needs and life stages.

I've talked on many occasions about the promise I've made to our colleagues to invest in them. Building on our great reward and benefit approach, once again we've delivered on that promise in 2018, this time in investing and modernising our healthy working environments. Not only is this the right thing to do, we know from our early pilots we're enabling our colleagues to work more collaboratively, flexibly and perform at their very best. We completed the refurbishment of our first building in 2018 and have committed investment in transforming all of our office spaces by summer 2020.

Given just how much we achieved in 2018, it was important to me that I had the opportunity to thank our colleagues personally for their hard work and commitment. Towards the end of the year we came together, not only to look at how far we've come and celebrate, but to have quality time together exploring our powerful purpose and how we grow Simplyhealth together, for our colleagues, customers and communities.

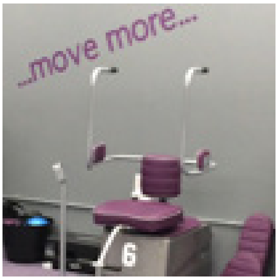
Supporting our colleagues, customers and communities

2018 has been our year of transformation and moving at pace using all of the talent that we have across the business to help us deliver on our purpose and grow our business sustainably.

We spent time simplifying our processes and developing new ways to collaborate together to ensure we can continue to meet the changing needs of our customers now and in the future.

We also invested in developing the skills and performance of our colleagues and I'm pleased to report that 102 people took advantage of new roles and opportunities within Simplyhealth. We also welcomed new talent to Simplyhealth to strengthen our capabilities.

Supporting our communities is at the heart of what we do and we have continued to work with health-related causes both locally and nationally. I have been moved by the work of Teeth Team which gives disadvantaged five-year-olds access to dental care by bringing dentists into the classroom to supervise tooth brushing. I was shocked to learn that everyday 170 children and teenagers undergo tooth extractions in hospital under general anaesthetic. However, almost three-quarters (74%) of three to four-year-olds with tooth decay accessed primary care following a Teeth Team assessment in 2017. This shows that investing in prevention has never been so important and this is why our work with Teeth Team is crucial.



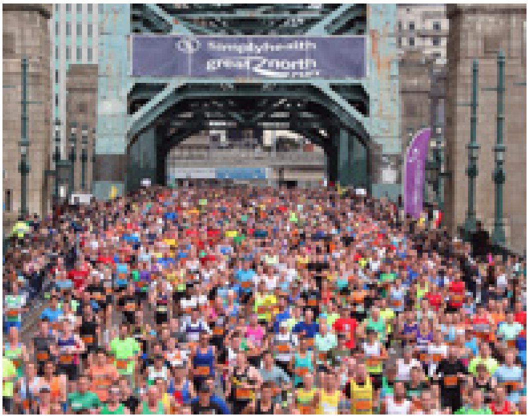
On a local level we have supported charitable organisations including the I Can Therapy Centre in Andover. The centre is the first of its kind in Hampshire and is a community based rehabilitation facility to enable people with health conditions to move more and come together socially. I have seen first-hand the difference our investment has made. I contracted polio as a child which has affected movement in one of my legs. I visited the centre and after an assessment with a physiotherapist, for the first time in many years I was able to use certain gym equipment.

But we recognise the impact we can have extends beyond charitable giving. In 2018, we formed a new community impact team which focuses on our charitable activities, sustainability and the environment and being a national voice in healthcare to help tackle health inequality.

Customer-led, digitally powered

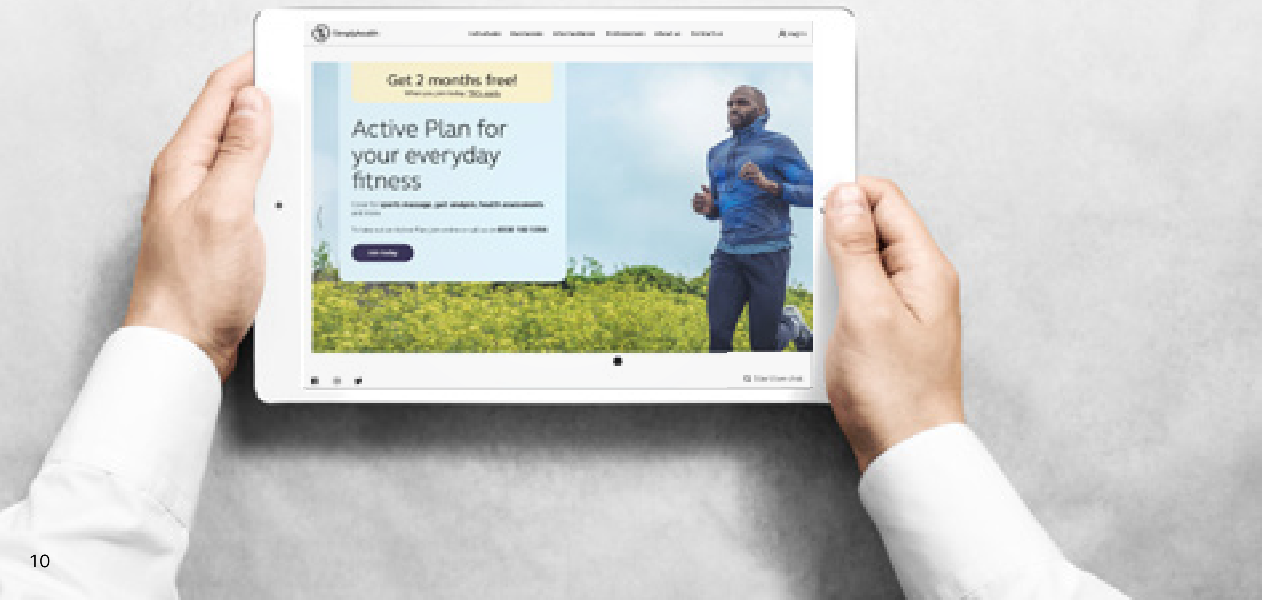
The world around us is changing. Technology is advancing and the way in which our customers want to interact with us is evolving, with more and more customers demanding better digital experiences.

In 2018, we transformed our digital capability and now have a digital centre of excellence that is focused on delivering the digital experiences our customers say they want and need to fit around their busy lives. And it's important to realise that providing better digital experiences doesn't detract from our commitment to providing excellent customer service, it is just an extension of that. We know our customers don't want to have to phone customer services to change a password, they should be able to do that quickly online, but they do want to know that they can speak to someone who's caring and knowledgeable when they need to. Great customer service can be delivered in all sorts of ways and I am proud that our customers continued to tell us how they valued the service we gave them - leading us to exceeding our customer experience target in 2018.



Continuing to meet the needs of our customers

We've also adapted to changing needs by launching new products in 2018. Our Simplyhealth Active Plan positions the benefits of a health plan to a well-informed, health conscious audience who want to take control of their health. It provides health assessments, sports massage and even gait analysis to help active people continue to be their personal best. We launched the plan at the Simplyhealth Great North Run and it has continued to attract a very warm reception, and shows that we don't just want to lead the market, we want to grow it.



Unfortunately, we had to acknowledge when we weren't delivering the results we were striving for in 2018 and that meant ceasing development of our Care for Life offering. We still believe there is an unmet need in the care space as millions of unpaid carers are struggling to find the information and support they need. However, not all employers recognise the important role they can play to support workers in the workplace. We raised this in our submission to the Work & Pensions Select Committee's report on employment support for working carers.

We learnt a great deal developing Care for Life and will use that knowledge to inform our product development in the future. Importantly, we continue to support carers through our community impact activities both locally and nationally.

Looking ahead

We are not the NHS, neither do we provide private medical insurance, but we do offer a 'third way' of helping people to care for their health, see the healthcare professionals they need quickly and get help towards the cost.

While the NHS continues to receive investment it faces ongoing funding challenges, which means there is a greater need for Simplyhealth to play a role alongside the NHS. We are an important part of the health system in the UK that not only helps to relieve pressure on the NHS by encouraging people to take a preventative approach to their healthcare, but also cares for the carers by supporting 107 NHS Trusts with our health plans.

I am proud of the five years I have been CEO of this great organisation, but I know there is much more to do. That's why we intend to grow in 2019 to help more people get the healthcare they need.

I would like to thank each and every one of my colleagues for their hard work in 2018. We remain committed to investing what is needed to continue transforming Simplyhealth, so we are a truly customer-led, sustainable business that is focused on improving access to healthcare.

I look forward to reporting on our success.

Romana Abdin
Chief Executive

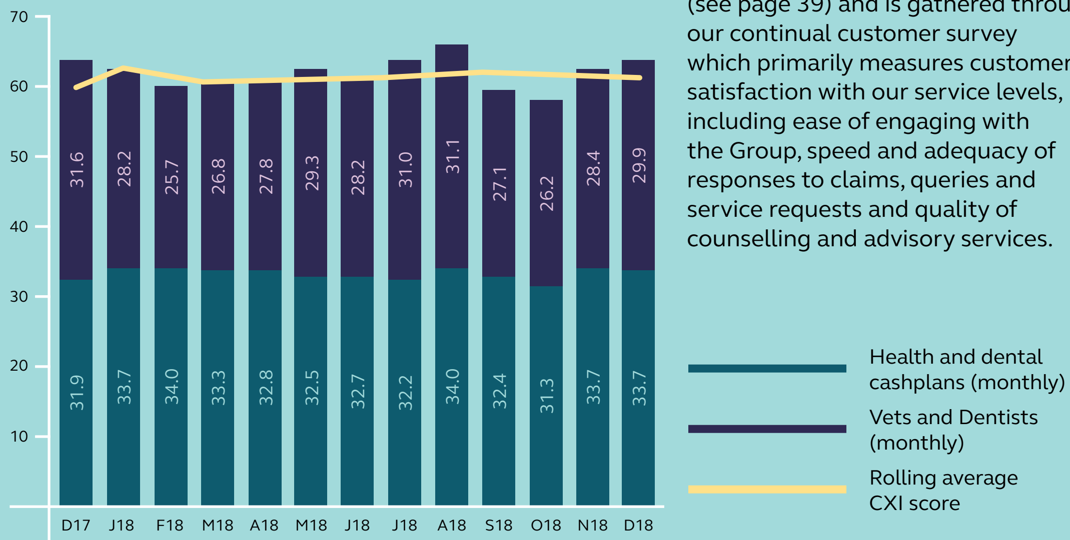
We make it easy

Every day we help thousands of customers get the healthcare support they need, when they need it. Whether it's paying claims quickly or being on hand to speak to them over the phone, email or via live web chat, we make it easy for our customers, because we believe no-one should go without the healthcare support they need.

Today our health plans, dental plans and pet health plans help over three and a half million individuals, families, employees and pets get support with their health.

We are maintaining our focus on being truly customer-led and purpose driven to continually improve the experience of our customers. In 2018, we spent a great deal of time researching and understanding what matters to customers, what they want from healthcare and, more importantly, from us. This has given us rich insight that will inform the future development of our products and services. We also focused on the needs of dental professionals and the products and value added services they need to build their businesses and help more people to access dental care.

Monthly customer experience index by business stream



We are obsessed about customer experience and set ourselves challenging targets in 2018 to ensure we were delivering the services and personal support our customers, clients and healthcare professionals wanted.

> **It was great to see that we exceeded the expectations of our customers, as our Customer Experience Index rose by 1.6% during the year to 61.5%, showing that they feel valued and supported. Throughout the year we have exceeded our target score of 60%.**

Our Customer Experience Index is one of our key performance indicators (see page 39) and is gathered through our continual customer survey which primarily measures customer satisfaction with our service levels, including ease of engaging with the Group, speed and adequacy of responses to claims, queries and service requests and quality of counselling and advisory services.

Enhancing our digital capability

But it doesn't stop there.

We know the way in which our customers want to interact with us is changing. Technology is advancing and so we must continue to evolve in order to meet our customers' changing needs.

That is why digital remained a key priority for us in 2018 as we invested in building our in-house capability and developing the online solutions and experiences our customers need. The creation of this team has seen us welcome new talent to Simplyhealth, as well as enable some of our colleagues to develop their careers within the organisation with the creation of a number of new roles.

Looking ahead, we will continue to invest in our digital centre of excellence as a priority and ensure that we use the insight and feedback to improve our service and continue to make it easy for our customers.

Jack Coleman was previously based in our Customer Contact Team but a keen interest in all things digital and a desire to deliver higher performance inspired him to join the new team as Digital Operation Assistant.

I have always loved tech. Having been a science fiction fan my whole life, I have a massive amount of excitement as tech has progressed in my life. My academic interest in the new digital landscape in which we live in was further peaked with a couple of different modules taken while I was at university looking into the impact of digital media and audiences.

I had been looking at opportunities to develop throughout the business as I feel invested in Simplyhealth. Although I noticed the role online I have to give credit to my colleagues who encouraged me to apply for the role. This level of encouragement from management gave me confidence that they were thinking about my professional development.

The most exciting aspect of my job is that no two days are the same. One day I could be deleting hundreds of webpages, the next I'll be building new digital experiences. Everyday truly is a learning experience.

Becoming a digitally-led organisation means creating experiences that enhance people's lives. We can see all around us how technology has increased access to information and help in everyday life.

If you want a recipe,
you look it up.
If you want to learn how to tie a tie,
you look it up.
If you want to learn how to set up a kite,
you look it up.

This is what Simplyhealth needs to be but in regards to healthcare. Our services need to add value to people's lives, and Simplyhealth coming into the new digital world is integral to that, especially given our purpose to help people get the healthcare support they need.

Making it easy for our colleagues to collaborate

We know that our people are our greatest asset and we want to provide a working environment that helps them thrive and feel healthy and energised. We want our people to feel connected, confident and in control so they can drive their careers at Simplyhealth and perform to the best of their ability so they can continue to deliver a great service to our customers.

We have a high performance culture where we want our people to aim higher, while also ensuring that we are providing the right conditions for them to succeed. We want to make it easy for our colleagues to collaborate and so in 2018 we continued to invest in transforming our work spaces to create healthy, modern and creative environments. We completed our first building Anton House in Andover, and plan to transform each of our remaining buildings by summer 2020.

We are committed to the personal development and career growth of our people, while also attracting great talent and helping them flourish. We ensure that our recruitment and development opportunities are openly available for all; irrespective of gender, disability, marital status, race, age, sexual orientation or ethnic origin. And, our desire to create a supportive environment for our employees also means that we recognise the need for a healthy work and home life balance. We provide flexible and agile working opportunities that help our people strike the work life balance that is right for them, so they can contribute to the success of the business. We also work hard to provide a working environment where our employees feel listened to and recognised for their contribution in making a difference to things that matter: helping everyone to get the healthcare they need.

In 2018 we introduced a new employee benefits proposition that is designed to meet the needs of our people, ensure that they are recognised and rewarded and have control and flexibility over their benefits.

Colleagues can claim for wellness and **further learning**

We are proud to now offer a pension scheme where we contribute up to 10% of their salary and are delighted that 97% of our employees are now in the pension scheme.

Colleagues also now have a new flex allowance giving them the freedom to choose the benefits that are right for them.

Any remaining flex allowance after making benefit selections is put into a spending account, where colleagues can claim for wellness and further learning.

We had hundreds of claims submitted in 2018 covering everything from gym memberships and mindfulness apps to crochet lessons and hair and beauty qualifications.

We're here for the many

Our purpose is as relevant today as it was back in 1872. We were founded to make sure everyone has the opportunity to access healthcare support when they need it; because we believe health is a right and not a privilege.

Since then, we have seen the creation of the NHS and private medical insurance to support people with their health. We are not the NHS, nor do we offer private medical insurance. Instead, we offer a 'third way' of helping people look after their health.

Today we are the UK's leading provider of health plans, dental plans and pet health plans, supporting over three and a half million individuals, families, employees and pets. Our plans help our customers take control of their health and see the right professionals when they need to, whether that's by avoiding a lengthy wait to see a GP via our 24/7 GP service or by visiting a chiropractor quickly to treat back pain.

We also work closely with professionals across the dental and veterinary industries, supporting them with their business and helping them to provide the very best, affordable and effective healthcare plans for their patients and pet owners.

In 2018, we welcomed 779,000 more customers to Simplyhealth

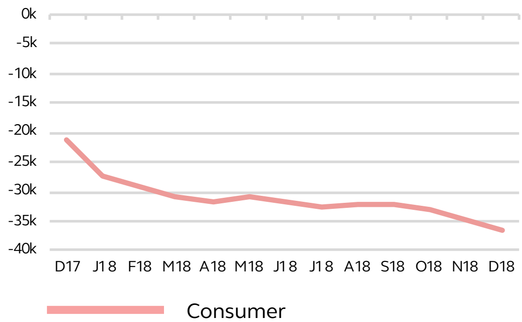
largely due to a rise in the number of pet plans throughout the year. The increase in membership numbers, net of lapsed policies was 273,000. Nevertheless this is 48,000 adverse to our target for the year and we begin 2019 with our total membership 29,000 lower than planned. Addressing this decline is a key challenge for 2019.

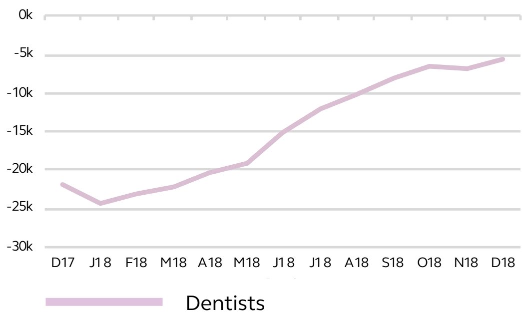
In our Professionals business, the Dentist book ended the year with net decline of 6,000 lower, despite five months of net growth in the second half of the year, a trajectory that we expect to see continue through 2019. The Vets book outperformed expectations with growth of 283,000 in the year and it is set to continue to grow in 2019 at a similar pace.

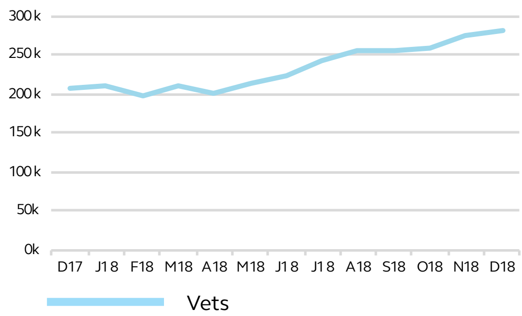
Finally our new business streams, principally dental partnerships, added 20,000 customers. Negotiations with a further seven practices are currently at the contractual stage and there is an additional pipeline of 23 practices that we are in advanced discussions with, which is in line with our target of adding over 20 more partnerships by the end of 2019.

We have seen positive signs of change in our growth trajectory however we still face challenges in the consumer health cash plan part of our business which continued to decline. This trend is counterbalanced by the growth during the year of our corporate health cash plans, where we have built good relationships with companies that are reflected in the strong pipeline for new corporate business we have at the start of 2019.

The four graphs shown below illustrate the rolling annual change in customer numbers over our four main business units over the past 12 months.

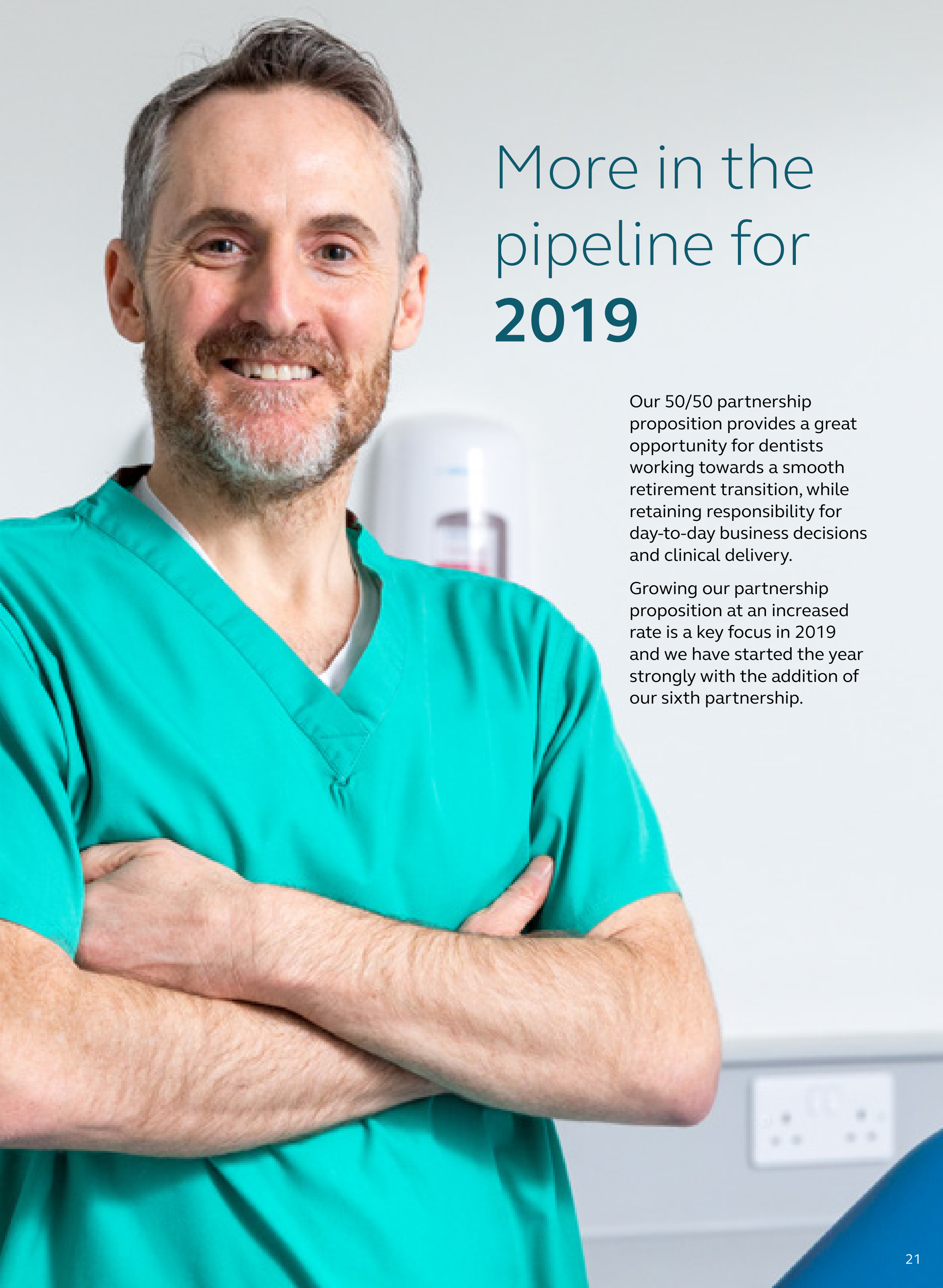






Our claims loss ratio for 2018 rose by 2% which we see as a positive step in delivering on our purpose. The rise is evidence that more of our customers are seeing the value of their plans and using them to better support their health.

During 2018, we continued to grow our Dental Partnerships programme to five partnerships as part of our continued investment in the dental market.



More in the pipeline for **2019**

Our 50/50 partnership proposition provides a great opportunity for dentists working towards a smooth retirement transition, while retaining responsibility for day-to-day business decisions and clinical delivery.

Growing our partnership proposition at an increased rate is a key focus in 2019 and we have started the year strongly with the addition of our sixth partnership.

Supporting people every step of the way

As title partner of the Simplyhealth Great Run Series we are supporting runners and their families every step of the way.

We continued our partnership with the Great Run Company for a second year in 2018 and built upon the success of the previous year by developing a new event and product. We launched the first Simplyhealth Canine Run at the Simplyhealth Great South Run in the autumn, encouraging pets and their humans to be active. It was a fantastic event that we intend to repeat this year.

Importantly the insights we have gathered during our title partnership of the Simplyhealth Great Run Series helped us to introduce a new health plan to the consumer market. The Simplyhealth Active Plan is designed to support people to be active to help improve their health. The plan is a great example of how we're developing new products to meet the changing needs of our customers.

Mind raised **£745,000**

As well as a new event and proposition, we decided to appoint a new charity partner for the 2018 Series and selected Mind, the leading mental health charity for England and Wales. We wanted to find a charity partner that aligned with our purpose and Mind's emphasis on the links between physical activity and mental wellbeing was a great fit.

We worked with Mind to encourage people to get active and improve their mental wellbeing. Through our partnership, Mind raised £745,000.


ZOE
mind
for better mental health
simplyhealth
ZOE
35146
PUMA
MANCHESTER

Caring for our customers

Debbie Kirkman underwent emergency surgery which resulted in an eight night hospital stay. She suffered financially due to time off work, as well as physically. A keen runner, Debbie was worried about getting back into running after the operation in time for the London Marathon. Here, she explains how her health plan helped every step of the way.

"Living on my own I wasn't sure how I was going to manage. I had an inkling my plan included some sort of hospital cover so I checked my policy and was amazed to discover I was entitled to a payment.

I'm normally fiercely independent, so it was brilliant that I could spend the money how I wanted and in a way which would benefit me the most. I used it to pay for help with practical day-to-day household tasks that I couldn't do myself, such as cleaning and gardening, and as I relied on friends to drive me around, I used it for petrol money.

The whole claims process was so simple - all I had to do was take a photo of my discharge letter with my phone then upload it online and complete the claim form. Just a week after leaving hospital, the money was in my bank account.

I was overwhelmed by the service from Simplyhealth. I was dealing with a company that actually cared. From the emails from Carol in the Customer Service team, to the hand written get well soon card – that had me in bits. I burst into tears when I received it.

Financially, I suffered because of the time I had to take off work but Simplyhealth really helped to offset some of that worry and made it so much easier to cope with.

My biggest worry was when I was going to get back to running. This was one of the main reasons I became a customer around seven years ago as I had plantar fasciitis, a condition that can cause heel pain, along with some other niggling injuries.

I've run the London Marathon for the past seven years and I'm taking part again in 2019. I'm 49 years old and my plan definitely helps me keep on track. Running long distances, I use chiropractic treatment and physiotherapy to iron out any problems so I'm in tip-top condition and also afterwards to help with my recovery. I'm so lucky that my plan helps me afford to keep myself in better condition and stay healthy. There are so many aspects that work for me.

I'd definitely recommend Simplyhealth – anyone can use it but it's particularly great for anyone active. It helps you to look after your health and access the healthcare you need quickly when you need it most – you can't put a price on that.

I'd hate to be without Simplyhealth. When I was in hospital, it's made all the difference at what was a difficult time.

I was overwhelmed by the service from Simplyhealth. I was dealing with a company that actually cared.

For the long term

By supporting people to take a preventative approach to their healthcare we are helping to improve their long-term health, as well as the long term sustainability of the healthcare system in the UK.

We want to be able to help many more people to get the healthcare they need for the long term.

The strength of our reserves and solvency ratio of 386%

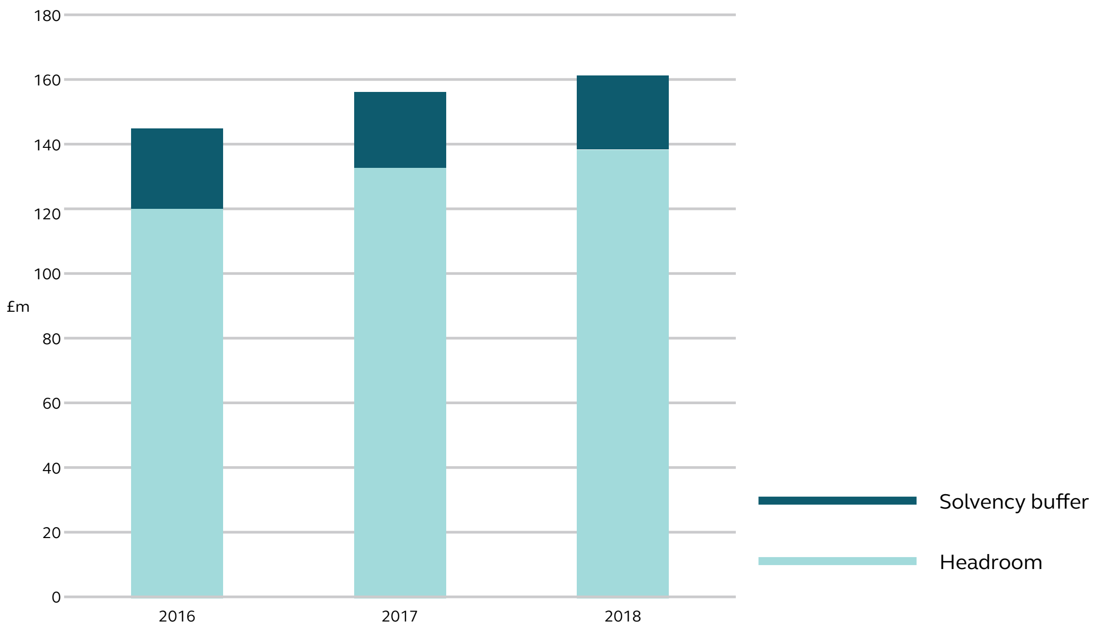
make us a strong, sustainable business in which people can trust. Our solvency capital surplus is significantly larger than our cash plan competitors, which means we have more opportunity for growth and investment, and the ability to absorb market shocks.

Solvency ratio and available capital

	2016	2017	Unaudited 2018
	£m	£m	£m
Solvency II Eligible Own Funds [1]	206.1	215.0	217.5
Less Solvency Capital Requirement	(61.1)	(58.7)	(56.4)
Capital Surplus	145.0	156.3	161.1
Solvency Buffer @ 40%	(24.4)	(23.5)	(22.6)
Available Capital ('Headroom')	120.6	132.8	138.5
Solvency ratio	**337%**	**366%**	**386%**

1. Eligible Own Funds consists of equity as presented in the statement of financial position adjusted onto a regulatory basis in accordance with the Solvency II rules (note 4(f)).

Solvency position – capital surplus

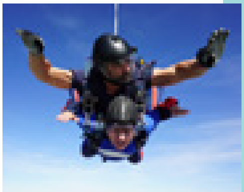


The Group remains in a strong solvency position at the end of the year with Eligible Own Funds of £217.5m (2017: £215.0m) compared to its Solvency Capital Requirement ('SCR') of £56.4m (2017: £58.7m) giving a solvency ratio of 386% (2017: 366%).

Capital headroom of £138.5m (2017: £132.8m) represents the capital surplus above our regulatory capital requirements, adjusted for the Group's risk appetite. The risk appetite has been agreed with the Board of Directors and includes a capital buffer in excess of the higher of the SCR and the Group's Own Risk Solvency Assessment estimate of capital requirement which is explained further on page 52.

Our charitable partnerships

While our products and services help our customers access healthcare, our work supporting health-related charitable causes across the UK enables even more people to get the health support they need – now and in the future.



We also encourage our colleagues to support charities that they feel passionately about by giving everyone who works at Simplyhealth up to three days a year volunteering.

We operate a **Give As You Earn scheme** so we'll match people's donations up to £50 a month.

In addition if our colleagues want to raise money for a charity, we will match their funding up to £500, so we can help our colleagues make the most of their contributions towards things they care about.

Through partnerships, we support initiatives up and down the country that make accessing healthcare easier for the many and for the long-term.

We dedicate at least 10% of our pre-tax profits (before goodwill amortisation and exceptional items) to health-related charitable activities every year. We work closely with our charitable partners to focus on the long-term impact our giving can have to help make sure no-one goes without the healthcare support they need.

We continue to support Teeth Team to improve the oral health of children in socially deprived communities. We're helping remove barriers by taking dentists into schools to educate children about the importance of good oral health, and how it can have an impact on their overall health.

In 2019, we're working closely with Teeth Team to expand its reach and will be launching a pilot, working in partnership with our member dentists, to reach more children in more schools.

In 2018

our community investment amounted to **£0.9m**

268 hours

of volunteering carried out by our colleagues

My whole life changed in a day

One organisation we've supported for a number of years now is Macular Society, most recently its counselling service.

With our support, during 2018 Macular Society held

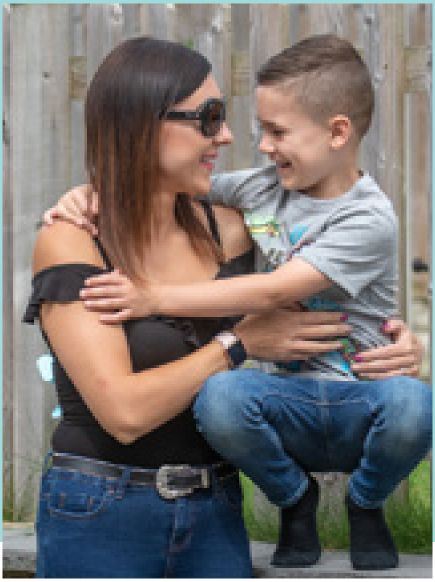
1,506

counselling sessions, which helped

251 people.

Among those was 31 year old Katie Berrill. Katie never had any reason to think there was anything wrong with her vision. But at a routine eye test last year, she received a diagnosis which changed her life instantly.

Katie's optician spotted something wrong at the back of her eyes and she received an urgent referral to hospital. Four days later she was told she had Stargardt disease, a juvenile macular dystrophy.

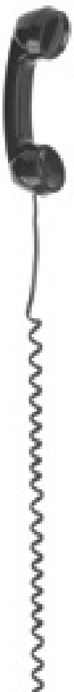


"I just remember going home and breaking down, I cried so much I literally couldn't breathe. I went into shock for a few days, I couldn't eat or sleep and was really shaky. My mind was in overdrive, I was terrified and felt sick constantly. I sometimes wonder when I think back, how I got through those few days.

My biggest fear when I was first diagnosed was not being able to see my little boy's face. I thought I was going to lose all of my vision completely and that blindness meant complete darkness. I worried about not being able to see my loved ones, losing my independence, not being able to drive and being a burden to everyone.

Katie was put in touch with the Society's counselling service, which helped her deal with the emotions she was going through.

Macular Society



She said: The counsellor calmed me down every week, listened to me cry, cheered me up, made me realise life will carry on and I'm so grateful for having her to talk to at that early stage. It gave me someone other than family to pour my heart out to.

Without the counselling service I really don't know how I would have got through those first couple of weeks after diagnosis. The counsellor Suzanne kept me calm and positive every week and listened without judgement. I am very grateful to her and always will be.

Supporting our communities

Having a strong social agenda is at the very heart of what we do. We're committed to building success on our heritage of positive community impact and healthy, happy people. We know that when our business thrives we are able to invest more into our communities.

As an organisation we support our colleagues and our local and national communities. But we also have a responsibility to support the global community. That's why in 2018 we spent time reviewing our environmental impact and developing a sustainability strategy that will help us to build a thriving Simplyhealth that nurtures healthy people, healthy profits and a healthy planet.

We're committed to creating a thriving business that nurtures healthy people, healthy profits and a healthy planet.

Working closely with sustainability experts Bioregional, we have examined our business to identify our impacts in 2018 and establish a baseline from which to set targets for 2019, 2023 and 2028 that will enable us to reduce our carbon footprint and resource use, and provide a clear roadmap for a more sustainable business.

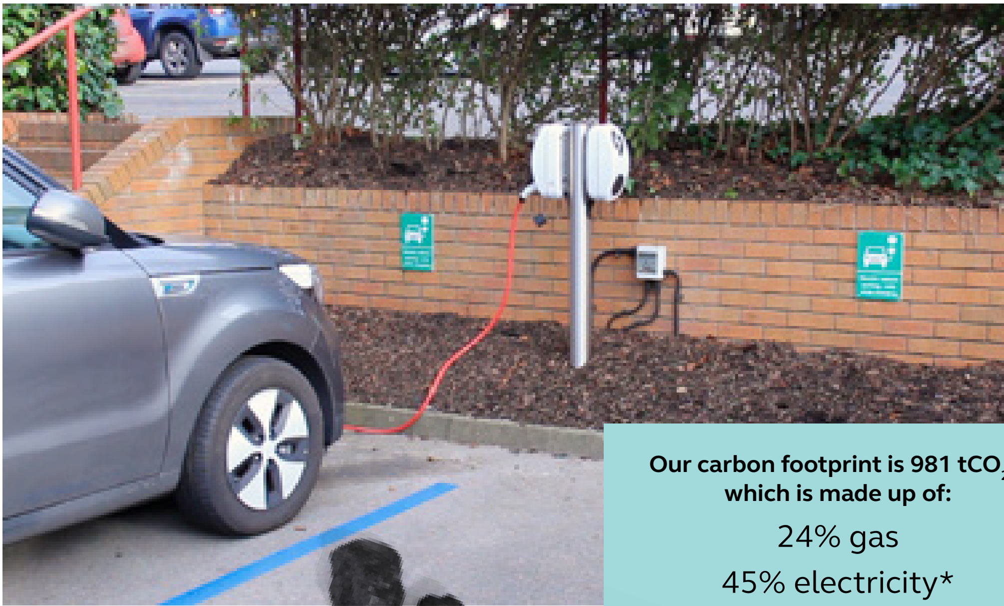
We made great progress towards a more sustainable business in 2018. We continued to invest in creating a modernised working environment for our colleagues, providing a healthier and more flexible space. We continued to install LED lighting and replace office carpets with carpet made using 100% green energy and 100% recycled materials. In addition, we use recycled work surfaces in social areas and continue to upcycle office furniture where we can.

To further reduce our carbon footprint we added more electric vehicles to our fleet and installed electric car charging points outside our offices for colleagues and visitors to use. In 2018 we also spent time talking to our colleagues to better understand how they travel to and from work to help identify ways to reduce our carbon footprint.

The programme will continue into 2019 and beyond and we are committed to continue taking steps to reduce our environmental impact and build our sustainability by measuring and reducing our carbon footprint, resource usage, waste management and water efficiency.

Our commitment to having a greater social impact doesn't start and end with our business; we want to encourage and educate our colleagues to influence their attitudes and behaviour outside of work so that we can collectively serve our responsibility to our global community.

sustainably



Our carbon footprint is 981 tCO_2e, which is made up of:

24% gas

45% electricity*

31% company cars**

This equates to a carbon intensity per colleague of:

717.6 tCO_2e/head

We will continue to reduce our carbon footprint

*Purchased electricity market-based emissions
**Value estimated to 100% based on available data on 40% of fleet

Our business model

Every day our **colleagues** and business partners fulfill our purpose to ensure that no-one goes without the healthcare support they need.

We make it easy for our **customers** to get the healthcare they need by removing barriers.

Colleagues

Custo

Status and purpose

A company limited by Guarantee, improving access to everyday healthcare, reinvesting profits back into the community

underpinned by

We are for the many and not the few.

Our products:

Individual Health Plans
1.0m lives covered

Dental Health Plans
1.5m lives covered

Pet Health Plans
1.2m pets covered

Supporting our **communities**, both locally and nationally, lies at the very heart of what we do.

Our work suppporting health-related charitable causes across the UK enables even more people to get the health support they need.

omers

Communities

Our financial strength

Reserves **£245.6m**
Solvency Ratio **386%**
(unaudited)

Our history

helping people since 1872

Chief Financial Officer's Report

Changing the way we do business to deliver on our purpose

In this, my first report as Chief Financial Officer I have the privilege of reporting the significant progress we are making in shaping our business and strengthening the delivery of our purpose for a sustainable future. Our focus is on the continual improvement of access to healthcare through growing Simplyhealth and transforming our business, ensuring we are able to adapt and meet our customers' changing needs by providing products and services they will value at each stage of their lives.

Growing Simplyhealth

To help more people get the healthcare they need Simplyhealth must grow, and I'm pleased to report that we laid the foundations upon which we will strengthen and grow in many areas of our business in 2018. We continue to build strong relationships in the corporate health plan market, with client numbers increasing by 2.8% in 2018 and ending the year with an exciting pipeline of opportunities. It was also particularly pleasing to see clients, who had previously taken their business elsewhere, chose to return to us in 2018, having missed the great levels of customer service and the added value that we deliver.

Our pet health plan business also continued to grow rapidly, and we saw how important our purpose is to our corporate partners. In highly competitive markets our purpose is a differentiator and likeminded businesses want to build purpose led partnerships with us to provide better health outcomes for customers.

We also increased the number of dental partnerships, with a 50% ownership model. At the end of 2018 we were invested in five practices with plans to increase at a faster rate in 2019. It is pleasing to see these practices continue to flourish as part of our partnership and their financial performance is an example of commercial success that we intend to build upon.

In the consumer market we introduced a new proposition to our health plans designed for runners and anyone with a sporting or active lifestyle. The Simplyhealth Active Plan is a great example of how we are not just content with being market leader we want to lead the market by launching new propositions that are designed to suit individual needs.

Reduced costs and greater efficiency

Customer expectations are accelerating at an unprecedented rate, in a world where health services face huge challenges and technological advances are adopted seamlessly by businesses and consumers alike. There is no future for a business that stands still. By building on our strengths, reducing inefficiency and simplifying how we do business we will ensure that we continue to be strong and sustainable; in 2018 that was a key focus, which will continue throughout 2019 and beyond.

I am pleased to report that we reduced our operating costs on continuing activities by £1.4m in 2018. These savings were delivered whilst also investing in new capabilities and skills across the Group with the aim of modernising, simplifying and improving the effectiveness and efficiency of the way we do business.

We achieved these savings by focusing on costs at every level including consolidating our supplier base, negotiating better arrangements, managing projects more effectively, improving the discipline of value based spend decisions and organising ourselves differently. In 2018 we combined our Business Change and IT teams and located the new teams in Andover and towards the end of the year we started consultations with the Finance teams to bring them together as one team which will be completed in early 2019. By focusing on improving our pace, capability and performance we are confident that we can drive growth across the business.

We also combined our mail and print team and located it in in Andover, while also increasing the level of technology at its disposal. This means it is able to operate more effectively and reduce our reliance on external providers and therefore costs.

Addressing our organisational design in this way does result in short term costs, however we are confident that the efficiencies made and benefits to our long term sustainability far outweigh the cost.

We have invested in a modernised working environment for our colleagues to ensure that we work in a way that supports our purpose. The "Modern Working Environment" provides a healthier and more flexible space, providing collaboration areas, conversation zones, social areas, as well as reducing our overall space requirement and reducing the office occupation cost per employee. The programme will continue into 2019 with the ultimate aim of reducing the amount of office space we occupy and its cost.

Our target for 2019 is to make another step change in reducing our cost base further, by continuing to focus on where we get value from our suppliers, implementing a programme of simplification and rationalisation to make our IT systems and infrastructure more efficient, as well as further changes to our organisational structure. The result will be a more efficient and dynamic business, operating at pace to ensure we are set up in the best possible way to fulfil our purpose.

Driving value for our customers

During 2018 our claims loss ratio increased by 2%. Rather than see this as a draw on profits, we see this movement as a positive shift in giving more value to our customers and delivering on our purpose. As we work on our cost base through our Transformation Programme we will be shifting our financial model further to give more value to our customers, who, as a consequence, will want to stay with us for the long term.

Our customer experience index increased in 2018 by 1.6 points; another indication that in Simplyhealth we are never complacent about our market leader position and we are always looking for ways to improve the value and experience for our customers.

Addressing the long term suitability of our assets

During 2018 we invested £9.6m on our Transformation Programme, an increase of £1.5m from 2017 and incurred reorganisation costs of £2.5m. The Transformation Programme steered our focus on the capabilities and resources needed for us to respond to the changing needs of customers and maintain our position as market leader. We are seeing in all aspects of life that automation and digital experiences are evolving at a rapid pace, and in healthcare, customers want quick and easy access to the support and services they need to help them manage their health.

A key goal of the Programme is to be truly 'customer led and digitally powered'. To help us achieve this in 2018 we invested in bringing new capabilities into our IT team and recruiting new skills into a highly capable Digital Experience team.

A key priority for IT was to evaluate the capabilities of our software and applications to ensure they are scalable and able to adapt to the developing digital landscape, as well as deliver the digital experiences our customers want. In a world where digital technology is evolving at a rapid pace, including the use of artificial intelligence, we undertook a review of our internally developed software and tools; their functionality and scalability against the likelihood of more sophisticated and automated systems being available in the market place within the next few years. With the support of external experts we concluded that some of our systems were not constructed in a way that would enable their development and adaptation for the digital future in a cost effective way, particularly in light of the solutions that are already starting to appear in the market. We therefore, decided to halt the development of one significant IT project.

While this has been a tough decision given the resources invested to date, we felt that to continue would not be an effective use of funds and would not, as a result of the significant costs to make the software comparable to other market offerings, generate sufficient economic benefit to justify any further development.

In accordance with the Financial Reporting Standard 102, the development costs of this project had been capitalised on the basis of its future economic value and benefit. The decision to stop development significantly limits the future economic value of this project, which has, as a consequence, created an impairment valuation, resulting in a material adjustment of £16.1m in the 2018 results. This has been reported as an exceptional item in the statement of comprehensive income.

As a result of this experience and the rapid pace of innovation in technology we will be looking to the market for future solutions. This may include partnering with technology experts, so we can bring our knowledge of healthcare and create digital solutions that enhance the experiences of our customers and help more people get the healthcare support they need.

Business performance in 2018

The Group made a loss before tax and exceptional items on continuing activities for the year of £11.3m (2017: profit of £3.0m). Exceptional items, which represent the impairment in software development costs explained earlier were £16.1m (2017: retail closure costs of £5.2m). As a result of these losses, the Group recorded a tax credit on continuing activities of £2.9m (2017: charge of £3.0m).

There was no net income or expenditure of discontinued operations in the current year (2017: post tax loss of £8.1m).

Key performance indicators ('KPIs')

The Group manages its business performance based on the following key financial and other performance indicators.

		2018	2017		
		Continuing operations	Continuing operations	Discontinued operations	Change Continuing operations
Total customers (page 18)	'000	**3,689**	3,416	-	+273
Total technical income	£m	**227.2**	238.1	-	- 10.9
Claims loss ratio [1]	%	**68%**	66%	-	-2%
Underlying operating profit	£m	**18.7**	19.9	(4.3)	- 1.2
Solvency ratio [2] (unaudited)	%	**386%**	366%	-	+20%
Customer experience index [3]		**61.5**	59.9	-	+1.6

Notes

1. The claims loss ratio is calculated by dividing claims incurred in the statement of comprehensive income by the total technical income.
2. The Solvency Ratio is defined as Eligible Own Funds divided by the Solvency Capital Requirement. The Group's capital reserves primarily comprise share capital and retained profits (page 27 and note 4(f)).
3. The Group uses a Customer Experience Index to track its performance in meeting the needs of our customers and the quality of service they receive (page 12).

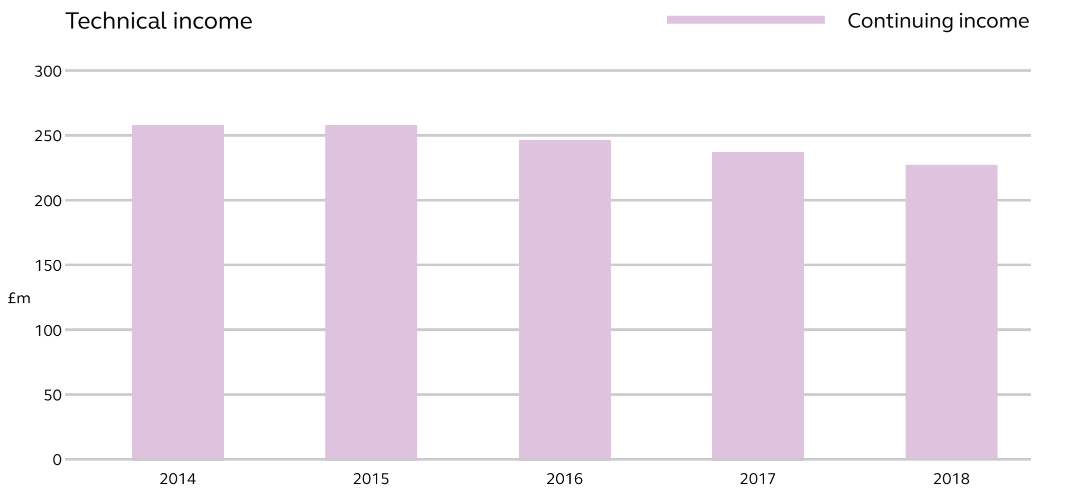
Key performance indicators ('KPIs') (continued)

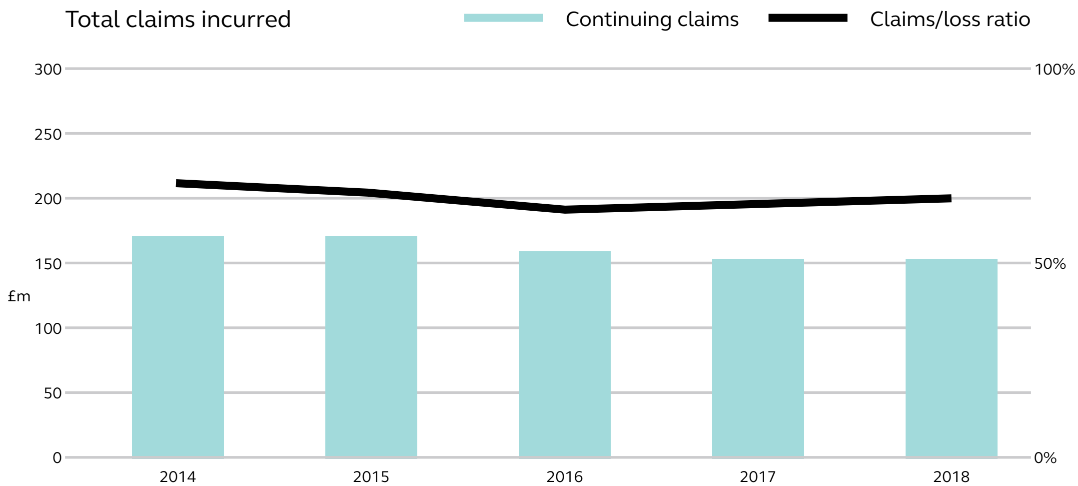
Technical account

Total technical income has fallen in the year by £10.9m due to the overall reduction in health plans held by individual consumers. Total claims incurred have also fallen in value by £3.4m. However, as this reduction is proportionally lower than the fall in technical income, the claims loss ratio rose by 2% to 68% in 2018; the second consecutive year of increase as we deliver on our purpose.

As a result net technical income after claims fell to £73.1m (2017: £80.6m).

Technical income and claims incurred (continuing activities)





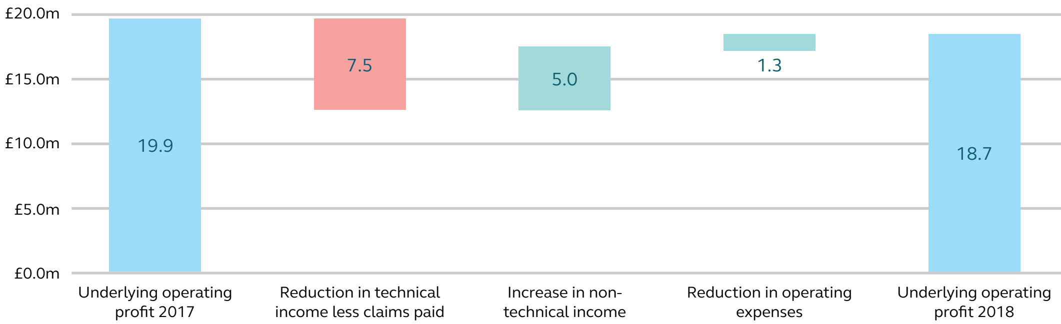
Underlying operating profit

Underlying operating profit is defined as the surplus on the general business technical account and income and expenses of running the non-technical business including central management expenses. It is designed to illustrate the Group's trading performance on its core activities by excluding the results of discontinued activities, one-off projects and transactions and items such as goodwill amortisation and returns on the investment portfolio that are incidental to these activities.

The underlying operating profit is reconciled to the loss before exceptional items and tax in the statement of comprehensive income as follows:

	2018	2017	
	Continuing operations	Continuing operations	Discontinued operations
	£m	£m	£m
Statement of comprehensive income:			
Loss on ordinary activities before exceptional items and tax	**(11.3)**	3.0	(4.4)
Adjustments			
Add back donations	**0.9**	0.8	-
Add back amortisation of goodwill and other intangibles	**12.7**	13.0	0.1
Exclude investment return	**4.4**	(5.7)	-
Deduct reversal of prior year impairments	**(0.1)**	(0.1)	-
Add back corporate transformation expenses	**9.6**	8.1	-
Add back reorganisation costs	**2.5**	0.8	-
Underlying operating profit	**18.7**	19.9	(4.3)

Underlying operating profit movement between 2017 and 2018



The underlying profit for the year of £18.7m (2017: £19.9m) shows the Group continues to be profitable through a time of significant change.

Other elements of business performance

Exceptional item

The basis of the exceptional loss of £16.1m arising on the impairment of computer software is explained fully on page 38.

Investment returns

During the year the Group received investment income of £3.4m (2017: £3.6m). At 31 December 2018 market value of the Group's total investment portfolio was £176.2m, a reduction of £4.4m from 31 December 2017. The movement on investments is explained as follows:

	Debt and other fixed interest securities £m	Derivatives £m	Total £m
Opening balance	**180.2**	**0.4**	**180.6**
Net purchase of debt and other fixed interest securities	2.7	-	2.7
Losses on realisation of investments and derivative settlements	(1.2)	(0.1)	(1.3)
Unrealised losses on investments and derivatives	(4.5)	(1.3)	(5.8)
Closing balance	**177.2**	**(1.0)**	**176.2**

In 2016 the Group appointed Schroder Investment Management Limited, on a 3 year contract, to manage its direct investment holdings in accordance with the parameters for our risk appetite set out in the Investment Management Agreement. The performance during 2018 is a reflection on market movements rather than issues specific to our portfolio.

The realised and unrealised loss of £7.1m (2017: profit of £2.7m) represents a reduction of £9.8m from last year; 4.0% of the portfolio value. The losses have been incurred as a result of the fall in global stocks during the fourth quarter in 2018 and rising bond yields matched by a fall in bond prices.

Global stocks fell 7.1% in 2018, according to the MSCI World Index, as gains of 6.1% in the first nine months of the year were more than erased by a fall of 12.0% in the final quarter. The FTSE 100 fell by 12.5% in the year and the Dow Jones Industrial average by 5.6%.

The bond markets largely reflected strengthening economic growth tempered by growing uncertainty, often due to political factors such as Brexit, leading to rising rates which depressed prices. For example UK gilt yields rose from 1.19% to 1.37% driven by continued above-target inflation, a consequence of weak sterling, and expectations of interest rate hikes.

Source: Schroders Financial Markets in 2018 – the year in review.
https://www.schroders.com/en/insights/economics/financial-markets-2018-the-year-in-review/

Cash flow

The Group's cash and cash equivalents reduced by £10.4m during the year (2017: reduction of £8.0m). Our operations absorbed cash of £2.0m (2017: generation of £0.9m) primarily as a result of the anticipated adverse working capital movements resulting from our move to annual contracts to make dealing with us easier for our customers.

A further £5.5m (2017: £7.1m) was invested in the Group's IT infrastructure and systems as well as our new modern working environment, which are both part of our Transformation Programme. Net purchases of investments totalled £2.7m (2017: £2.6m) as outlined above.

At 31 December 2018 the Group held cash and cash equivalent balances totalling £40.7m (2017: £51.1m). All of the Group's other financial liabilities, which comprise accruals, trade and other creditors total £22.8m (2017: £28.7m) and are payable within one year. Further details on the Group's liquidity risk are detailed in note 4(d) to the financial statements.

Taxation

The Group recorded a tax credit of £2.9m in the year (2017: charge of £3.0m) as a result of trading losses, with losses primarily arising as a result of the impairment of software development costs. The tax credit is lower than the effective rate of corporation tax of 19% as relief had been received in prior years for some of software development costs and certain costs, such as the goodwill amortisation, are not allowable as an expense for tax purposes.

The Group has a tax debtor of £0.8m (2017: creditor of £0.8m) which primarily represents refunds due on current year payments on account. There is no net corporation tax payable at 31 December 2018 as all taxable profits are covered by group relief for losses arising elsewhere in the Group.

Tax strategy

Simplyhealth has a clear purpose; improving access to healthcare for the many and has a strong, embedded culture of social responsibility and awareness to underpin a focus on the achievement of this purpose. In order to support the UK State to fund services for healthcare and wellbeing for all communities, through the NHS, education system, welfare provision and other services, we believe we must pay the appropriate tax based on the financial outcomes of our business success.

Doing the right thing and acting with integrity and compassion is core to our culture which means a minimum of 10% of our profits are donated to support communities. All other profits are reinvested in the business for the long term benefit of our customers.

Our business activities generate a variety of taxes, including corporate income taxes, employment taxes and social security contributions. In addition to meeting our own obligations to pay the correct amount of tax on time, we also collect and remit, on behalf of HM Revenue & Customs ('HMRC') indirect taxes, including Insurance Premium Tax and VAT.

All areas of our business share a common purpose, values and beliefs. Our in-house team of qualified tax professionals works closely with the leadership team and business managers to embed an understanding of the tax implications of what we do, helping to ensure that the Group as a whole understands and applies the relevant legislation consistently and appropriately and that it uses the group-wide framework to inform commercial decision-making. Deciding these matters can involve interpretation of rules and forming judgements, while also taking due consideration to the Group's reputation, brand, corporate and social responsibilities, as well as the applicable legal and fiduciary duties of directors and employees of the Group, so we seek to be open and transparent about our approach, our decision-making processes and the outcomes achieved.

Tax risk management

Simplyhealth's Board sets our group-wide risk appetite, including tax risk appetite, and our risk management strategy which sets out the process for the assessment, monitoring, reporting and escalation of risks and which is overseen by the Risk and Capital Committee. Simplyhealth's leadership team and business leaders are accountable for ensuring that all commercial decisions are made in line with Simplyhealth's risk appetite.

The business will engage with the tax team when making commercial or structural decisions. Our Group tax team determines in each case whether the technical tax implications of a decision are understood internally, or whether specialist external advice is needed. External advice may be sought in areas relating to new markets and services, or where there is uncertainty as to the application or interpretation of tax law. A specialist review of all significant tax calculations and tax-affecting accounting positions is undertaken annually by external consultants prior to filing the returns. Any concerns or significant tax risks and developments are escalated through the Senior Accounting Officer reporting and monitoring process.

Our tax team monitors and informs the business of regulatory and legislative change that affect the Group, engaging with expert advisers as required to ensure we are aware of developments in compliance requirements and government guidelines, enabling us to maintain the correct application of legislation and appropriate use of government tax incentives and reliefs.

Relationship with HMRC

We have been awarded Low Risk status by HMRC since 2010 and we wish to retain this status. In support of this, we aim to interpret the UK tax laws in a way consistent with a relationship of co-operative compliance with HMRC. Further, we aim to maintain our overall relationship with HMRC in an open and transparent manner, ensuring appropriate disclosure is made on a real-time basis.

Governance

Simplyhealth's tax strategy is owned by the Chief Financial Officer and approved by the Board. I am also the Group's Senior Accounting Officer ('SAO') and our tax strategy is delivered by the tax team to ensure group-wide compliance and an appropriate control framework that enables me to submit an unqualified SAO certificate to HMRC.

Debbie Beaven
Chief Financial Officer

Corporate Governance

Incorporation and constitution

Simplyhealth Group Limited is a company limited by guarantee.

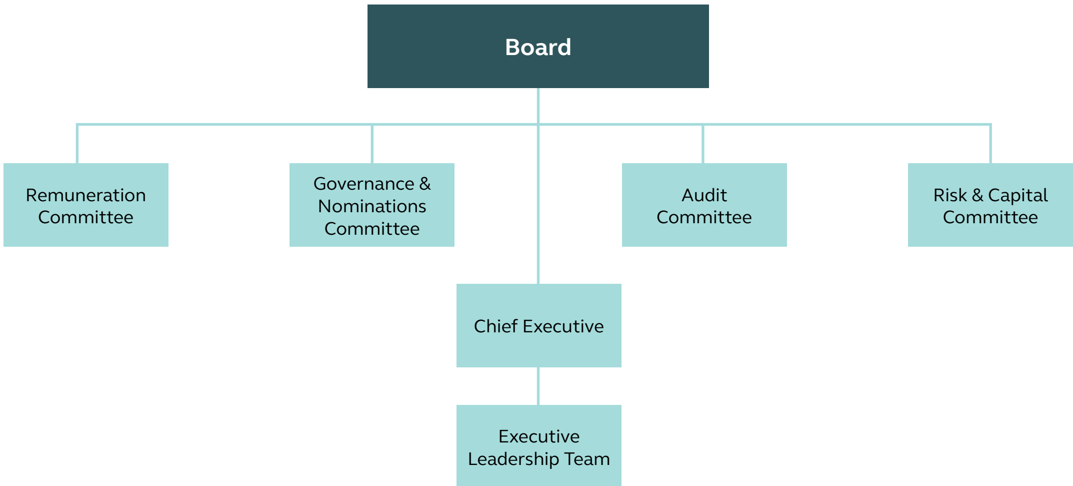
Our system of governance is designed to ensure that we are well positioned to continue to deliver our purpose while effectively managing risk. This system is reviewed annually by the Board. As Simplyhealth has neither shareholders nor a requirement to distribute profits to members, the roles of voting members and the Board of Directors in providing effective governance are particularly important.

Governance Structure

Our decision-making and organisational structure supports the effective governance of the business in meeting our strategic goals, our delivery of excellent customer service, and our adherence to regulations. The governance model is designed to be proportionate to the nature, scale and complexity of the risks we face.

The Board assesses and regularly reviews the ethical and economic position of the business and considers significant changes affecting factors such as the organisation, operations, customers, external environment, the financial position and risk profile. This oversight is provided through the operation of Board Committees.

The Simplyhealth Group committee structure



The Role of the Board

The Board is collectively responsible for ensuring Simplyhealth is successful for the benefit of our stakeholders, setting the strategic direction, providing entrepreneurial leadership and overseeing the effective management of key risks faced by the business.

The Board is accountable for ensuring effective governance, overseeing financial control of the business, ensuring that investments are managed properly, that all material business risks are managed and that funding is allocated efficiently and according to capital adequacy requirements. It is also accountable for ensuring that we stay true to our purpose of improving access to healthcare.

To assist the Board in carrying out its duties, the Board delegates some of these responsibilities, although not accountability, to a number of Board Committees and to the Chief Executive Officer. The Board Committees operate under delegated authority from the Board, enabling specific matters to be considered in depth and reported back to the Board and, where appropriate, making recommendations for final decision by the Board.

The key Board Committees and their responsibilities are:

Committee	Responsibilities
Remuneration Committee (chaired by M A Hall)	Developing and recommending to the Board the remuneration principles for the Chairman, Chief Executive, Executive Directors, Company Secretary and the Executive Leadership Team having regard to advice from internal and external guidance and recommending to the Board their individual remuneration packages, including any bonuses and other incentive payments. Setting and reviewing the principles and parameters of the remuneration policy for the whole Group.
Governance and Nominations Committee (chaired by K S Piggott)	Evaluating and monitoring the governance framework, including the governance structure and governance principles, to ensure they meet the Group's current and future strategic needs and support best practice. This includes recommending candidates for appointment to the Board to ensure that collectively, we have the balance of skills, experience, independence, knowledge and diversity appropriate for Simplyhealth's operations and the regulated environment in which it operates.

Committee	Responsibilities
Audit Committee (chaired by R J Harris)	Reviewing the effectiveness of the system of control for managing financial and non-financial risks. Monitoring the integrity of the financial statements including significant reporting judgements contained within them. Reviewing and monitoring the effectiveness and objectivity of both the internal and external audit function and reviewing their reports and recommendations. Reviewing the effective implementation and operation of regulatory requirements and obligations.
Risk and Capital Committee (chaired by J N Maltby)	Overseeing, understanding and reviewing the Group's risk profile and advising the Board on principal risk exposures and future risk strategy, including recommending the levels of key risk appetite for the business. Ensuring that future capital requirements of the business are appropriately and adequately considered and planned for over the business planning horizon. Overseeing and advising the Board on the embedding and maintenance of a suitable risk management culture in Simplyhealth in accordance with the risk management framework.

Chief Executive delegated authority

The Board is responsible for overseeing the setting and delivery of the strategy. It delegates the responsibility to lead Simplyhealth to the Chief Executive, and the Chief Executive in turn delegates defined levels of responsibility for strategic and operational decision-making and oversight to members of the Executive Leadership Team.

The Chief Executive of Simplyhealth has delegated authority from, and is responsible to, the Board for directing and promoting the successful operation and development of Simplyhealth, implementing the strategy set by the Board to deliver our purpose, in a way that is consistent with our values and risk appetite.

Supporting this, the Chief Executive has a robust operational governance structure in place to manage the performance of the business and the delivery of the strategy.

The Executive Leadership Team

The Executive Leadership Team comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Customer Officer, the Chief Strategy Officer, the Chief Risk Officer, the Chief Operating Officer, the Managing Director of Corporate & Consumer and the Managing Director of Professionals.

Its responsibilities include:

- Formulating (for Board approval), reviewing, communicating and managing the delivery of the Group's strategy, taking into account Simplyhealth's purpose, risk profile, capital requirements and solvency position.
- Leading performance across the Group, including operational, financial and people matters, reporting results to the Board and its committees as required.
- Maintaining an effective organisational structure which supports delivery of strategic and operational plans and manages succession planning for key roles.
- Ensuring the Group maintains an effective internal control framework, which supports compliance with relevant legislation and regulations.
- Monitoring and reviewing the risk profile of the Group such that this enables it to mitigate significant operational, financial, compliance and other risks, in line with the Group's risk appetite, reporting these to the Board as required.
- Quarterly review and agreement of the Management Responsibilities Map.

Risk management system including the own risk and solvency assessment

The role of risk management

The Board considers risk management to be a fundamental part of our purpose and a significant aspect of corporate governance. The effective management of risk is central to our culture and decision-making and provides an essential contribution towards the achievement of our strategy as a trusted business.

We have developed an Enterprise Risk Management Policy that stipulates the minimum standard for risk management and internal control for all parts of the Group and for all categories of risk.

In turn, this enables reasonable assurance to be provided to the Board and external stakeholders that Simplyhealth is achieving its risk management and internal control objectives.

Risk management approach

We adopt a responsible and balanced approach to risk-taking so that significant risks are identified and managed. This supports long-term sustainability and growth and enables the Group to respond dynamically to strategic opportunities while maintaining an appropriate and proportionate approach to running the business.

Our approach to risk management consists of the following components:

- Agreement of Board risk appetite statements in relation to defined risks, which sets the philosophy and high level measures for the level of risk the Group is willing to accept.
- A risk management system which ensures that all principal risks are identified, assessed and managed in accordance with the risk appetite framework. The Group's risk management policies are reviewed at least annually.
- Regular risk monitoring and reporting, ensuring any concentration of risk by risk type, entity or function is assessed and management action agreed on a timely basis. Group Risk Reporting provides an assessment of risk at both the Group, Business Unit and where appropriate functional level.
- An effective risk and control culture which is focused on the sustainability of Simplyhealth, risk awareness, ethical behaviour and the fair treatment of customers and employees.

Risk management framework

We maintain a risk management framework which links our operating environment, business strategy, decision-making and capital management, alongside defined risk appetites.

The framework sets out the processes involved in the identification, assessment, mitigation, monitoring and reporting of risk, required to meet the Group's commercial, strategic and regulatory objectives, including the requirements of the UK financial services regulators and the Solvency II Directive.

Three Lines of Defence

The Group has adopted the 'Three Lines of Defence' operating model to define risk management accountability within roles and responsibilities.

First Line of Defence

- Performs risk management activities in line with risk standards, including ensuring adequate assessment of both the risk and its control strategy.
- Includes the day to day management of risk as well as risk-based decision-making within risk appetite.
- Establishes and reports against a range of key risk and control indicators.
- Proactively monitors the risk and control environment relevant to their part of the business.

Second Line of Defence

- Responsible for developing and overseeing the Group risk management strategy, the framework for identifying and managing risk and the risk standards which support the Group operating within its risk appetite.
- Supports the setting of Board Risk Appetite triggers and monitors business activity against those triggers.
- Acts as a business partner, helping the business analyse risk-taking against risk appetite to better support the strategic direction of the business.
- Critically assesses the first line assessments of risk and controls.
- Performs evaluations of risk management effectiveness against a range of external benchmarks.

Third Line of Defence

- Provides objective assurance over the effective and efficient operations of the roles, responsibilities and activities of the first and second lines.

Risk governance

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives, including the setting of the Group's overall risk appetite. The Board delegates oversight of risk management to the Risk and Capital Committee.

The day to day oversight and challenge of Simplyhealth's risk management and reporting processes rests with the Group Risk Function. The consolidated risk report produced by this function is firmly embedded in the management and Board reporting. This report enables the monitoring of risk-taking measured against agreed risk limits, using a suite of Key Risk Indicators linked to risk appetite.

The effectiveness of the risk management and internal control framework is independently assessed as part of the programme of activity carried out by the Internal Audit Function in the third line of defence, the results of which are reported to the Audit Committee.

Risk management function

The risk management function is required to execute the risk strategy, and apply the risk framework.

Principal risks and uncertainties

The overall risk profile is determined by:

- The environment in which Simplyhealth does business, in particular competitor activity in the healthcare market, the changing health needs and claiming behaviour of customers, regulatory changes and an improving but still fragile economic environment; and
- The business strategy, which focuses on developing existing businesses, building new ones and delivering sustainable returns, with a focus on developing outstanding customer relationships and effective governance in a changing healthcare market.

The primary risk exposures are underwriting risk, market risk, credit risk, insurance operational risk, liquidity risk, non-insurance profit risk, non-insurance operational risk. Further details on how the Group manages these risks are given in note 4 to the financial statements.

Own Risk and Solvency Assessment ("ORSA")

Integration into the organisation's structure

We calculate our solvency requirement under the Standard Formula Solvency Capital Requirement. This is compared to the economic solvency assessment modelled in the ORSA.

The ORSA considers the future development of the organisation's solvency position and risk profile over its business planning period under a central set of assumptions that reflect the Board's best estimate view of the performance of the organisation and relevant changes to its external business environment. The ORSA is designed to provide the Board and key stakeholders of the business with insight into, and a comprehensive understanding of, the risks, capital and solvency implications of achieving the strategic ambitions of Simplyhealth.

The ORSA is an important part of the strategic and decision making process as well as the risk management framework.

We determine our own solvency needs over the business planning period by reference to the projected own funds, future capital requirements as determined by the SCR and ORSA, a capital buffer in accordance with its risk appetite, the Group's strategic ambitions and the availability of management actions.

Review and Approval

The Board has ultimate responsibility and accountability for risk in the organisation. It plays an active part in the development of the ORSA, which includes initial steering as to how the ORSA approach is designed, and regular challenge on risk identification, management and mitigation.

A full report detailing the outcomes of those processes is produced for review and approval by the Board on an annual basis.

The Board provides final approval of the ORSA outcomes and report and specifically confirms it has an understanding of the risks to the business, the underlying assumptions in the SCR calculation and ORSA and the impact of movements in the underlying assumptions.

"Brexit" uncertainty

On 23 June 2016, the United Kingdom ('UK') voted to leave the European Union ('EU'). Two and a half years on the exact nature, process and timing of the UK's exit from the EU are not clear although the exit date of March 29 2019 remains in place.

The two principal Brexit scenarios are currently:

- A negotiated exit with compromise and customs union (soft Brexit) and
- No agreement so lack of certainty on tariffs, border arrangements, contractual relationships (hard Brexit).

EU audit legislation requires when completing the assessment of the potential impact of a no deal Brexit that both direct and indirect impact assessments are completed. The Group completed an assessment in January 2019 and concluded the following:

- There is no impact on the going concern status of the Group,
- A no deal Brexit would not negatively impact any of our key outsourcing relationships in their ability to provide the required services to the Group;
- The impact on the Investment Portfolio of a no deal Brexit would be immaterial.

In addition the assessment concluded that like any business, future performance will be impacted by the general macroeconomic conditions which could be adversely affected by a no deal Brexit.

Internal control system

Simplyhealth's internal control system is designed to provide reasonable assurance of:

- Compliance with laws and regulations, and internal policies and procedures;
- The effectiveness and efficiency of operations; and
- Accuracy and reliability of financial and non-financial information.

The system is designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss.

The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. This oversight involves the participation of the Board, the Executive Leadership Team, the Audit Committee, the Risk & Capital Committee, Group Risk, Assurance, Legal, Internal Audit, the Chief Actuary, and senior management. The day-to-day responsibility for implementation and maintenance of the internal control system rests with Simplyhealth's various Senior Manager Functions under SMCR.

Assurance

The Assurance function is responsible for the identification and assessment of compliance risk. It advises the Board on compliance with relevant legal and regulatory requirements and assesses the possible impact of any future changes that may affect the Group or its subsidiaries.

The possible impact of changes to the regulatory and legal environment is considered on a quarterly basis with a discussion paper presented to the Risk and Capital Committee which looks at both short-term and long-term regulatory and legal issues that could affect the Group, including any changes to the Solvency II framework. Any material or urgent issues that are identified are notified to the Committee as soon as practicable.

The annual Compliance plan includes a schedule of activities that will encompass the monitoring of compliance with the Directive as well as interpreting new or changed requirements and providing advice to the Board.

Compliance policy and manual

A compliance policy is produced annually for Board inspection and approval, which provides a clear and robust framework for our assurance activities.

Key procedures

- The production of an annual Compliance plan that sets out key objectives, processes and activities for the coming year.
- The performance of a comprehensive annual monitoring plan to assess the effectiveness of internal processes and controls in key areas of the business.
- Regulatory and legislative horizon scanning, the interpretation of new and changed requirements, and advice and challenge to the organisation regarding compliance risk.
- Regular and ad hoc provision of advice, reporting and assurance to the Board and Risk & Capital Committee on legal, regulatory and compliance risk matters.
- A review of all key controls in the Group is conducted annually.

Policy on Bribery and Corruption

Simplyhealth condemns corruption in all its forms and we will not tolerate it in our business or in those we do business with. It is our policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

Any employee who breaches this policy faces disciplinary action, which could result in dismissal for gross misconduct. Any non-employee who is engaged by the Group and breaches this policy may have their contract terminated with immediate effect.

Monitoring and enforcement of the policy is undertaken by the Group's legal team and is administered in accordance with the Group's Whistleblowing Policy which is clearly communicated to all staff.

Internal audit function

The Internal Audit function provides independent, objective assurance to the Board, the Audit Committee, and all levels of management on the internal control environment at Simplyhealth. The Internal Audit Charter provides the framework for achieving this, by setting out the objectives, scope, responsibilities, authority, independence and accountability for the Internal Audit function. The Audit Committee reviews the Internal Audit Charter on at least an annual basis to ensure its continued relevance.

Internal Audit's mission is to assist the Board in protecting the assets, reputation and sustainability of the organisation by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the organisation's risk management, control and governance processes.

The Head of Internal Audit ("HoIA") is accountable for the production of regular reports to the Audit Committee.

These include:

- The development of an annual audit plan of activity based on an understanding of significant risks facing the Group;
- Periodic reports summarising the progress against the annual audit plan, the adequacy of Internal Audit resource and the results of audit activities against defined measures. The audit plan may be adjusted throughout the year to reflect unplanned events and emerging risks;
- Reporting of significant control issues / trends; and
- An annual assessment of the adequacy and effectiveness of the organisation's systems of internal control, based on the audit work performed.

Internal Audit's working practices and outputs comply with The Chartered Institute of Internal Auditors International Professional Practices Framework and the International Standards for the Professional Practice of Internal Auditing.

Independence and objectivity of the Internal Audit function

The Internal Audit function is independent from the activities it reviews and does not implement internal controls, develop or update procedures, or carry out activities that could impair its judgement.

Auditors have no operational responsibility or authority over any of the activities they assess.

The HoIA formally reports to the Chair of the Audit Committee and there are open communication lines between the HoIA and Non-Executive Directors. The HoIA has private meetings with the Chair of the Audit Committee and Non-Executive Directors in advance of Audit Committee meetings without the presence of Executive Directors.

Reporting to the HoIA, the Internal Audit team is made up of professionally qualified auditors with a range of experience of different organisations and processes. This mixture of skills and experience aims to ensure that the team deliver high quality professional audit and consultancy services. Where specific skills are not available in-house, the HoIA and Audit Committee are able to outsource or co-source audit activities to expert external partners.

The Strategic Report was approved by the Board of Directors and signed on their behalf,

Romana Abdin,
Chief Executive

28 March 2019

Directors' report

The directors present this report together with the Strategic Report, Financial Statements and Auditor's Report for the year ended 31 December 2018.

Directors

The directors who served during the year and up to the date of approval of these financial statements were:

K S Piggott | Non-executive Chairman

G Baldwin | Non-executive
(appointed 1 March 2018)

M A Hall | Non-executive

R J Harris | Non-executive

J N Maltby | Non-executive
(appointed 25 June 2018)

A L Pike | Non-executive
(resigned 15 February 2019)

R Abdin | Chief Executive

B D J Kent | Executive
(resigned 5 October 2018)

Secretary

The company secretaries who served during the year and up to the date of approval of these financial statements were:

H Dickinson
(appointed 29 January 2018, resigned 25 July 2018)

H Ashton
(appointed 25 July 2018, resigned 16 November 2018)

K S Piggott

G Baldwin

M A Hall

R J Harris

J N Maltby

R Abdin

Directors' report disclosures

The Strategic Report contains disclosures otherwise required to be contained in the Directors' Report in respect of employment policies, including those relating to disabled persons and future developments.

The Group's financial instruments comprise its financial investments, cash, and various items arising directly from operations such as insurance and other debtors, technical provisions and creditors. The main risks to which the Group is exposed are insurance risk, operational risk, liquidity risk, credit risk and market risk. The Group's approach to management of these risks is disclosed in the Strategic Report.

Directors' indemnities

During the year and at the time the Directors' Report was approved, the Company's Directors were the beneficiaries of qualifying indemnity provisions in respect of proceedings brought by third parties (subject to the conditions set out in section 234 of the Companies Act 2006) provided by Simplyhealth Group Limited.

Disclosure of information to the auditor

Each of the persons who are Directors of the Company at the date when this report was approved confirms that:

- So far as each Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- Each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditor

Grant Thornton UK LLP has expressed its willingness to continue in office as the Company's auditor.

By order of the Board

Romana Abdin,
Chief Executive

28 March 2019

Hambleden House
Waterloo Court
Andover
Hampshire
SP10 1LQ

Directors' Responsibilities Statement

Year ended 31 December 2018

The Directors are responsible for preparing the Strategic Report, 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts". 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 Group and of the profit or loss of the Company and Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Independent auditor's report to the members of Simplyhealth Group Limited

We have audited the financial statements of Simplyhealth Group Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, company statement of financial position, consolidated statement of changes in equity, company statement of changes in equity, consolidated cash flow statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss 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.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 58, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the 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.

Grant Thornton UK LLP

Paul Flatley
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

28 March 2019

Financial Statements

Year ended 31 December 2018

Consolidated statement of comprehensive income

Year ended 31 December 2018

TECHNICAL ACCOUNT – General business		2018			2017		
	Note	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Earned premiums, net of reinsurance							
Gross premiums written		**247.2**	**-**	**247.2**	278.9	0.4	279.3
Outward reinsurance premiums written		**-**	**-**	**-**	-	(0.4)	(0.4)
Change in the gross provision for unearned premiums	22	**(20.0)**	**-**	**(20.0)**	(40.8)	0.4	(40.4)
Change in the provision for unearned premiums, reinsurers' share	22	**-**	**-**	**-**	-	(0.4)	(0.4)
Total technical income		**227.2**	**-**	**227.2**	238.1	-	238.1
Claims incurred net of reinsurance Claims paid							
Gross claims paid		**(153.8)**	**(0.2)**	**(154.0)**	(157.5)	(2.2)	(159.7)
Reinsurers' share of claims paid		**-**	**0.2**	**0.2**	-	2.2	2.2
Change in the provision for outstanding claims							
Gross	22	**(0.3)**	**0.2**	**(0.1)**	-	2.4	2.4
Reinsurers' share	22	**-**	**(0.2)**	**(0.2)**	-	(2.4)	(2.4)
Total claims incurred		**(154.1)**	**-**	**(154.1)**	(157.5)	-	(157.5)
Net operating expenses	5	**(57.4)**	**-**	**(57.4)**	(53.7)	-	(53.7)
Total technical charge		**(211.5)**	**-**	**(211.5)**	(211.2)	-	(211.2)
Balance on the general business technical account		**15.7**	**-**	**15.7**	26.9	-	26.9

Consolidated statement of comprehensive income (continued)

Year ended 31 December 2018

	Note	2018 Continuing operations £m	2018 Discontinued operations £m	2018 Total £m	2017 Continuing operations £m	2017 Discontinued operations £m	2017 Total £m
Balance on the general business technical account		**15.7**	**-**	**15.7**	26.9	-	26.9
NON TECHNICAL ACCOUNT							
Investment returns							
Income from investments	7	**3.4**	**-**	**3.4**	3.6	-	3.6
Losses/(gains) on realisation of investments		**(1.3)**	**-**	**(1.3)**	2.3	-	2.3
Unrealised (losses)/gains on investments		**(5.8)**	**-**	**(5.8)**	0.4	-	0.4
Other investment charges and expenses		**(0.7)**	**-**	**(0.7)**	(0.6)	-	(0.6)
Other income and charges							
Other income		**22.3**	**-**	**22.3**	17.3	2.7	20.0
Other charges	5	**(31.4)**	**-**	**(31.4)**	(33.2)	(7.0)	(40.2)
Reversal of impairment of land and buildings	5, 11	**0.1**	**-**	**0.1**	0.1	-	0.1
Donations		**(0.9)**	**-**	**(0.9)**	(0.8)	-	(0.8)
Amortisation of goodwill and other intangibles	9, 10	**(12.7)**	**-**	**(12.7)**	(13.0)	(0.1)	(13.1)
(Loss)/profit on ordinary activities before exceptional items and tax		**(11.3)**	**-**	**(11.3)**	3.0	(4.4)	(1.4)
Profit on sale of investment property		**-**	**-**	**-**	2.2	-	2.2
Exceptional items	5	**(16.1)**	**-**	**(16.1)**	-	(5.2)	(5.2)
(Loss)/profit on ordinary activities before tax		**(27.4)**	**-**	**(27.4)**	5.2	(9.6)	(4.4)
Tax on (loss)/profit on ordinary activities	8	**2.9**	**-**	**2.9**	(3.0)	1.5	(1.5)
Total comprehensive (loss)/ income for the financial year		**(24.5)**	**-**	**(24.5)**	2.2	(8.1)	(5.9)

The discontinued operations of the Group are discussed in note 5.

The Group has no recognised items of other comprehensive income other than those included above, and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 70 to 116 form an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December 2018

ASSETS	Note	31 December 2018 £m	31 December 2017 £m
Intangible assets			
Goodwill	9	**38.9**	51.6
Other intangible assets	10	**2.2**	16.8
		41.1	68.4
Investments			
Other financial investments	13	**177.2**	180.2
Derivative assets	13	**-**	0.4
Investment in joint ventures	14	**2.0**	1.9
Reinsurers' share of technical provisions			
Reinsurers' share of provision for claims outstanding	22	**-**	0.2
Debtors			
Debtors arising out of direct insurance operations		**91.4**	69.7
Other debtors	16	**1.3**	0.6
Deferred taxation	18	**4.0**	1.9
Other assets			
Land and buildings	11	**6.3**	6.3
Tangible assets	17	**3.0**	0.8
Cash and cash equivalents	15	**40.7**	51.1
Prepayments and accrued income			
Accrued interest		**0.7**	0.7
Deferred acquisition costs	19	**0.4**	0.3
Other prepayments and accrued income		**3.3**	3.1
Total assets		**371.4**	385.6

The notes on pages 70 to 116 form an integral part of these financial statements.

Consolidated statement of financial position (continued)

As at 31 December 2018

EQUITY AND LIABILITIES	Note	**31 December 2018** £m	31 December 2017 £m
EQUITY			
Profit and loss account	20	**245.6**	270.1
LIABILITIES			
Technical provisions			
Provision for unearned premiums	22	**79.1**	59.1
Provision for claims outstanding	22	**16.5**	16.4
Creditors			
Derivative liabilities	13	**1.0**	-
Other creditors	21	**18.9**	24.5
Accruals and deferred income		**10.3**	15.5
Total equity and liabilities		**371.4**	385.6

These financial statements were approved by the Board of Directors and authorised for issue on 28 March 2019.

Signed on behalf of the Board of Directors

Romana Abdin,
Chief Executive

Simplyhealth Group Limited
Company number: 05445654

The notes on pages 70 to 116 form an integral part of these financial statements.

Company statement of financial position

As at 31 December 2018

	Note	31 December 2018 £m	31 December 2017 £m
Fixed assets			
Investments in group undertakings	12	**136.8**	138.1
Debtors			
Group relief receivable		**-**	0.4
Amounts due from group undertakings		-	1.1
Other assets			
Cash at bank and in hand	15	**4.7**	4.6
Total assets		**141.5**	144.2
Equity			
Profit and loss account at start of the year		**142.4**	147.1
Total comprehensive income for the year		**(1.0)**	(4.7)
Profit and loss account	20	**141.4**	142.4
Liabilities **Creditors: Amounts falling due within one year**			
Amounts due to other group undertakings		**0.1**	-
Other creditors		**-**	0.2
Accruals		**-**	1.6
Total equity and liabilities		**141.5**	144.2

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Signed on behalf of the Board of Directors

Romana Abdin,
Chief Executive

Simplyhealth Group Limited
Company number: 05445654

The notes on pages 70 to 116 form an integral part of these financial statements.

Consolidated statement of changes in equity

As at 31 December 2018

	Profit and loss account £m
At 1 January 2017	276.0
Total comprehensive loss for the year	(5.9)
At 31 December 2017	270.1
At 1 January 2018	**270.1**
Total comprehensive loss for the year	**(24.5)**
At 31 December 2018	**245.6**

Company statement of changes in equity

As at 31 December 2018

	Profit and loss account £m
At 1 January 2017	147.1
Total comprehensive loss for the year	(4.7)
At 31 December 2017	142.4
At 1 January 2018	**142.4**
Total comprehensive loss for the year	**(1.0)**
At 31 December 2018	**141.4**

The balance on the profit and loss account for both the Company and the Group comprises total comprehensive income accumulated in prior years.

The notes on pages 70 to 116 form an integral part of these financial statements.

Consolidated cash flow statement

Year ended 31 December 2018

	Note	31 December 2018 £m	31 December 2017 £m
Net cash flows from operating activities	23	**(2.0)**	0.9
Cash flows from investing activities			
Investment in joint ventures net of capital repayments		**(0.1)**	(0.9)
Purchase of tangible fixed assets		**(2.7)**	(0.9)
Purchase of intangible assets		**(2.8)**	(6.2)
Purchase of debt securities and other fixed income securities		**(72.7)**	(85.0)
Proceeds on disposal of debt and other fixed income securities		**69.9**	82.4
Settlement of derivative contracts		**-**	(0.8)
Proceeds of sale of land and buildings		**-**	2.5
Net cash flows from investing activities		**(8.4)**	(8.9)
Net decrease in cash and cash equivalents		**(10.4)**	(8.0)
Cash and cash equivalents at beginning of year		**51.1**	59.1
Cash and cash equivalents at end of year		**40.7**	51.1
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		**33.6**	32.1
Cash equivalents		**7.1**	19.0
Cash and cash equivalents		**40.7**	51.1

The notes on pages 70 to 116 form an integral part of these financial statements.

Notes to the financial statements

Year ended 31 December 2018

1. Corporate information

The Company is limited by guarantee and is incorporated in the United Kingdom, registration number 05445654. The address of the registered office is detailed on page 1. The nature of the Group's operations and its principal activities are set out in the Strategic Report.

2. Accounting policies

The principal accounting policies are summarised below.

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ('FRS 102') and FRS 103 "Insurance Contracts" ('FRS 103') and the Companies Act 2006.

The functional currency of the Group and the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in pounds sterling.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a company cash flow statement and remuneration of key management personnel of the Company.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Directors have considered in detail the Group's forecast performance, as well as its capital and liquidity resources. On this basis the Directors have a reasonable expectation that, despite uncertain market conditions, the Group has sufficient capital and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly the Directors have adopted the going concern basis in preparing these financial statements.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised through the statement of comprehensive income on a straight-line basis over its expected useful economic life, which the Directors consider to be ten years on current acquisitions. The gain or loss on subsequent disposal of a subsidiary will take account of any attributable, unamortised goodwill, which is derecognised on the disposal of the associated business.

The carrying value of goodwill is assessed at each annual reporting date for any impairment.

2. Accounting policies (continued)

Other intangible assets

Brands, customer relationships and licences

Intangible assets are recognised on acquisition of subsidiary undertakings and businesses where the Directors believe that it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost or value of the asset can be measured reliably.

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged so as to allocate the cost of intangibles through the statement of comprehensive income on a straight-line basis over their expected useful economic life, which the Directors consider to be ten years for intangible assets arising in respect of capitation plans and insurance products.

The carrying values of brands, customer relationships and licenses are assessed at each annual reporting date for any impairment.

Research

Research expenditure is written off as incurred.

Computer software and development costs

Purchased computer software is carried at historical cost less accumulated amortisation and amortised over a useful life of between two and four years, on a straight-line basis. Provision is made for any impairment.

The Directors review internal development expenditure annually. If the Directors are satisfied as to the technical, commercial and financial viability of individual projects internally developed computer software is capitalised as development expenditure. Development expenditure is not capitalised until it is implemented in the live environment at which point it is reclassified as computer software and amortised over a period of seven years.

Development expenditure that does not meet the criteria is expensed as incurred. Development costs previously expensed are not recognised as an asset in a subsequent period.

In cases of staged live implementations, costs relating to the expected benefits of the relevant modules are reclassified from development expenditure to software and amortised over a period of seven years. The carrying value of the asset and its expected future cash flows are assessed annually for impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings
50 years

Motor vehicles
4 years

Computer hardware
2 to 4 years

Fixtures, fittings and office equipment
4 to 10 years

Assets in the course of construction are not depreciated and are reviewed annually for indicators of impairment.

Revaluation of properties

Individual freehold properties are revalued to fair value every year. Where the fair value of an individual property exceeds historical cost, the surplus is credited to a revaluation reserve and recognised as other comprehensive income. If a deficit is identified which exceeds a previously recognised surplus relating to the same property, this deficit is charged to the statement of comprehensive income within the non-technical account. A reversal of such a deficit is credited to the statement of comprehensive income within the non-technical account.

2. Accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities, including debtors and creditors receivable or payable within one year with no stated interest rate, are initially measured at transaction price (including transaction costs), except for those financial assets classified as 'at fair value through profit or loss', which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction.

Derivative financial instruments are measured at fair value through profit or loss.

Debt instruments that are classified as payable or receivable within one year on initial recognition are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Debt instruments due in more than one year, other than those designated at fair value through profit or loss as part of the Group's trading portfolio, are subsequently measured at amortised cost using the effective interest method.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or where their fair value is reliably measurable) are measured at fair value through profit or loss.

Investments in debt securities and collective investment schemes held by the Group as part of the trading portfolio have been designated by the Group as fair value through profit or loss. This group of instruments is managed and its performance evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's key management personnel.

Where fair value cannot be measured reliably, investments are measured at cost less impairment.

Investments in subsidiaries are measured at cost less impairment.

(iii) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a discounted cash flow valuation technique.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is an unconditional and a legally enforceable right to offset the recognised amounts in all circumstances (including the default by, or insolvency or bankruptcy of, the Group or counterparties), and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the settlements are executed at the same time, or within a single settlement process or cycle, resulting in no or insignificant credit and liquidity risk

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the statement of comprehensive income as described below.

Non-financial assets

If there is an indication of possible impairment, the recoverable amount of the asset is estimated and compared with its carrying amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Financial assets

For financial assets carried at amortised cost, the recoverable amount is determined as the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the recoverable amount is the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Reversal of impairment losses

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

2. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash balances and deposits held at call with banks with less than 90 days maturity from date of deposit. This includes funds held on behalf of third parties that are not available for use by the Group or Company. The offsetting liability is included in 'Other creditors' in note 21.

Third party funds

Third party funds comprise cash held on behalf of customers to administer claims under service contracts and are maintained in separate bank accounts. Following generally accepted industry practice, these amounts are disclosed separately within cash, with a corresponding creditor disclosed. The inclusion of these funds on the statement of financial position therefore has no impact on the net assets of the Company or Group.

Foreign currencies

Monetary assets and liabilities held in foreign currencies at the statement of financial position date are expressed in sterling at rates ruling on that date. Income and expenditure denominated in foreign currencies are translated at rates ruling at the date on which the transaction occurs. All resulting exchange gains and losses are included within the non-technical account in the statement of comprehensive income.

Premiums

The Group accounts for its insurance business on a monthly or annual basis depending on the period of cover provided by the contract. Claims are only payable where customers continue to pay premiums. Premiums written relate to business incepted in the year, together with any differences between booked premiums for prior years and those previously accrued, and are recognised as written on a receivable basis with an adjustment for any unearned element. Gross premiums are stated net of any Insurance Premium Tax as applicable.

Unearned premiums

Earned premiums represent gross premiums written after adjusting for changes in unearned premiums. The unearned premium provision represents the proportion of premiums written in the financial year that relate to periods of risk in future accounting years. It is calculated separately for each insurance contract and on a pro rata basis. The change in this provision is taken to profit or loss in order that revenue is recognised over the period of risk.

Investment income

Investment income includes dividends, interest, gains and losses on the realisation of investments and unrealised gains and losses. Income from fixed interest securities together with interest, rents and associated expenses are accounted for in the year in which they accrue. Dividends are included in the statement of comprehensive income when the securities are listed as ex-dividend. Realised gains and losses on investments are calculated as the difference between the net sale proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the statement of financial position date and their original cost or, if they have been previously valued, the valuation at the previous statement of financial position date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Other income

Other income is recognised on an accruals basis, net of any value added taxation.

Unexpired risk provision

An unexpired risk provision is made where necessary to cover any amount by which future claims and related acquisition costs on business in force at the statement of financial position date are expected to exceed the provision for unearned premiums at that same date. The amount provided is determined after considering the individual pattern and profile of specific homogeneous risk groups. Any provision for unexpired risks is included within the 'Technical provisions' in the statement of financial position.

The Group assesses at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.

Pension costs and other employee benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Differences between amounts due in the year and amounts actually paid are shown as either accruals or prepayments in the statement of financial position.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

2. Accounting policies (continued)

Claims

Claims incurred comprises claims reported and settled during the year or awaiting settlement at the year end, an estimate for claims incurred but not yet paid and an allowance to cover expenses in connection with the settlement of the claims incurred. The provision for outstanding claims at the year end is based on claims experience and current expectations. Any over or under provision is adjusted as part of claims incurred in the following year.

Claims incurred and the provision for outstanding claims include direct, and an allocation of indirect, expenses connected with the settlement of claims. The allocation of indirect expenses is performed in a manner that fairly reflects the running of the business.

The provision for outstanding claims represents an estimate of the ultimate cost of settling all claims (including direct and indirect claims settlement costs) which have occurred up to the statement of financial position date. This includes a provision for claims incurred but not yet paid, the value of which is based on a best estimate plus a provision for adverse development within a range of possible outcomes. These figures are based on the overall claims risk profile as measured by the cost, frequency, deviation from historic trends and sensitivity of claims to market factors and include a fixed level of prudence based on the Group's risk appetite. The basis and calculation of both the estimates and the provision for adverse development are reviewed annually against claims experience.

Acquisition costs relating to insurance contracts

All costs of acquiring new business together with the associated initial processing costs are accounted for as acquisition costs in the statement of comprehensive income in the year in which they were incurred. Similarly, the costs of monitoring existing business and the general running of the Group are treated as administrative expenses. The commission paid in respect of insurance contracts incurred during a financial year is deferred to the extent that it relates to unearned premiums at the statement of financial position date and is amortised over the period in which the related revenues are earned.

Taxation

The Group is liable to taxation on its profit or loss on ordinary activities. Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at that date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) or liability that is recognised in a business combination is different from the value at which it is recognised, a deferred tax asset or liability is recognised for the additional tax that will arise in respect of that difference. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date that are expected to apply to the reversal of the timing difference.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets and liabilities are not discounted.

Investment in joint ventures

Entities in which the Group holds an interest and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures.

The Group's share of the results of joint ventures and associates is included in the Group statement of comprehensive income using the equity method of accounting. Investments in joint ventures are carried in the Group statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value.

Leases

Payments in respect of operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

2. Accounting policies (continued)

Exceptional items

The Group classifies certain one-off charges or credits that have a material impact on the Group results as exceptional items. These are disclosed separately to provide further understanding on the performance of the Group.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Claims incurred arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is a critical accounting estimate. There is uncertainty as to the loss ratio the Group will experience as claims are settled. Key assumptions are based upon anticipated loss ratios, which are based upon historical experience, and updated for expectations of future changes in claims inflation and incidence rates.

There are a number of uncertainties that determine how much the Group will ultimately pay with respect to such contracts. This includes whether a claim event has occurred or not, how much it will ultimately settle for and changes in the business portfolio which affect factors such as the number of claims and their typical settlement costs.

The insurance liabilities recorded on the statement of financial position include a provision for adverse development in addition to the best estimates for future claims. The margin over and above the best estimate is a fixed amount, based upon technical provisions net of reinsurance, and is subject to annual review. Further discussion, including analysis of the sensitivity of profit or loss to changes in the claims loss ratio, is presented in note 22.

Goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which they have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Further disclosures and a reconciliation of the movement in carrying value of goodwill and other intangible assets between the current and previous statement of financial position are included within notes 9 and 10.

Land and buildings

Properties are valued annually by professional external valuers using the Royal Institution of Chartered Surveyors ("RICS") guidelines. The RICS guidelines apply separate assumptions to the value of the land, buildings and tenancy associated with each property.

The valuation process requires judgement to be exercised in determining a number of similar properties for which active market prices can be obtained. Further adjustments are then made, if necessary, for any difference in the nature, location or condition of the specific property.

Further disclosures and a reconciliation of the movement in carrying value of land and buildings between the current and previous statement of financial position dates, including revaluations during the year, are included within note 11.

Impairment in software development costs

As part of the Group Transformation Plan the Group invested in bringing new capabilities into our Information Technology and Digital teams. A key priority for the new team was an evaluation of our software and applications, to access their future potential, value and adaptability for a developing digital landscape. The structure and flexibility of internally developed software and tools were tested against the rapid changes in technology, including artificial intelligence, and the likelihood of more sophisticated and automated systems being available in the market place within the next few years.

With the support of independent external experts the Directors concluded that some of our systems were not constructed in a way that would enable their development and adaptation for the digital future in a cost effective way, particularly in light of the solutions that are already starting to appear in the market. Consequently the Directors decided to halt the development of a significant project.

In accordance with FRS 102 the development costs of this project had been capitalised partly as development costs and partly as computer software within intangible assets on the basis of is future economic value and benefit. The decision to stop development significantly limits the future economic value of this project, which has, as a consequence, created an impairment loss £16.1m in the 2018 results.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Recognition of deferred tax assets

The Group's tax charge on ordinary activities is the sum of the total current and deferred tax charges. The calculation of the total tax charge necessarily involves a degree of estimation and judgement in respect of certain items. The final outcome of some of these items may give rise to material profit and loss and/or cash flow variances.

A deferred tax asset is recognised when it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and applying an appropriate risk adjustment factor where necessary, such as limiting the forecast income period.

At the balance sheet date the Board has reviewed the Company's Business Plans for the next five years and has forecast that the Group would generate future taxable profits against which existing fixed asset timing differences could be relieved. As a result the Group has recognised a deferred tax asset of £4.0 million.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market and have no observable market data inputs is determined by using valuation techniques. The carrying value of these instruments is £0.6m (2017: £0.6m). The group uses its judgement to select methods and make assumptions for the valuation of these instruments such as the use of discounted cash flow models with inputs that are derived from the yield and duration of specific bonds rather than observable market data. See note 4 for discussion of the related risks.

4. Financial risk and capital management

The Group is exposed to financial risk through its financial assets and insurance liabilities. The most important components of financial risk are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk.

There have been no significant changes from the prior period in the nature of the financial risks to which the Group is exposed. The Group's objectives and policies for managing these risks and the methods used to measure risk exposure are consistent with those adopted during the prior period.

The Group uses derivatives for the purpose of efficient portfolio management and to reduce risk in aspects of the Group's investment activities. The Group uses forward foreign exchange contracts and fixed interest futures for these purposes.

The Group monitors its exposure to risks through regular reviews of its portfolio of assets and liabilities and their underlying characteristics. The Directors have chosen not to apply hedge accounting to the Group's derivatives.

The Group has designated debt instruments, derivative assets and liabilities, collective investment schemes and equity shares in its investment portfolio as fair value through profit and loss. All other financial assets and liabilities are held at amortised cost.

a) Categories of financial assets and liabilities

Group At 31 December 2018	Held at fair value £m	Held at amortised cost £m	Total £m
Cash at bank and in hand	-	33.6	33.6
Cash equivalents	7.1	-	7.1
Other financial investments	177.2	-	177.2
Other financial assets	-	92.6	92.6
Derivative liabilities	(1.0)	-	(1.0)
Other financial liabilities	-	(39.3)	(39.3)
	183.3	86.9	270.2

Group At 31 December 2017	Held at fair value £m	Held at amortised cost £m	Total £m
Cash at bank and in hand	-	32.1	32.1
Cash equivalents	19.0	-	19.0
Other financial investments	180.2	-	180.2
Derivative assets	0.4	-	0.4
Other financial assets	-	71.1	71.1
Other financial liabilities	-	(45.1)	(45.1)
	199.6	58.1	257.7

4. Financial risk and capital management (continued)

b) Measurement of fair value

The Amendment to FRS 102 in respect of Fair Value Hierarchy Disclosures sets out the measurement bases that can be used to value financial assets and liabilities held at fair value. The different methods of valuation are categorised into a hierarchy as follows:

Level 1: assets and liabilities for which fair values have been measured using the unadjusted quoted price in an active market for identical assets or liabilities that the Group can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The following table analyses the Group's financial assets and liabilities that are held at fair value according to the above hierarchy:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2018				
Debt securities	**-**	**109.2**	**0.6**	**109.8**
Collective investment schemes	**-**	**67.4**	**-**	**67.4**
Cash equivalents	**-**	**7.1**	**-**	**7.1**
Financial assets held at fair value	**-**	**183.7**	**0.6**	**184.3**
Derivative liabilities	-	(1.0)	-	(1.0)
At 31 December 2017				
Debt securities	-	108.0	0.6	108.6
Collective investment schemes	-	71.6	-	71.6
Cash equivalents	-	19.0	-	19.0
Financial assets held at fair value	**-**	**198.6**	**0.6**	**199.2**
Derivative assets	-	0.4	-	0.4

The valuation of the debt security included in level 3 is based on a discounted cash flow model with inputs that are derived from the yield and duration of the bond rather than observable market data.

c) Credit risk

The Group has exposure to credit risk, which is the risk that counterparties will cause a financial loss to the Group by failing to discharge an obligation, from the following areas:

- cash deposits held with banks;
- counterparty defaults on debt securities;
- reinsurers' share of insurance liabilities (excluding unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance premium debtors; and
- amounts due from other group undertakings and guarantees offered to other group entities.

The carrying value of its financial assets and liabilities best represents the Group's maximum exposure to credit risk. The Group's risk policies limit the maximum exposure to credit risk with any single counterparty to £45m.

Debtors arising out of direct insurance operations

Debtors arising out of direct insurance operations comprise premiums due from policyholders and they comprise the Group's most significant exposure to credit risk. An allowance for doubtful debts is maintained and regularly monitored as part of the Group's internal financial reporting process. The maturity of premium debtors, net of allowances for doubtful debts, is as follows:

Days past due	Premium debtors not yet due £m	0-30 days overdue £m	30-60 days overdue £m	60-90 days overdue £m	Over 90 days overdue £m	Total £m
Amount outstanding						
As at 31 December 2018	**86.0**	**3.0**	**1.1**	**1.2**	**0.1**	**91.4**
As at 31 December 2017	65.2	3.2	0.7	0.6	-	69.7

Premium debtors are stated net of a provision for doubtful debts of £0.5m (2017: £0.5m).

At 31 December 2018 there are impaired amounts due from insurance policyholders of £0.3m (2017: £0.3m). Where contractual payments are in arrears for more than three months the relevant assets are classified as past due and impaired.

4. Financial risk and capital management (continued)

c) Credit risk (continued)

Financial investments

The credit risk exposure from financial investments and cash deposits is managed by monitoring credit ratings assigned to counterparties by international credit rating agencies.

The Group manages its direct investment holdings by placing the following limits on the credit ratings of its investment counterparties with the appointed investment managers through the Investment Management Agreement:

- Maximum limit of BBB-rated securities 30%
- Maximum limit of A-rated securities 65%
- The balance of the portfolio is represented by cash held by our investment custodians
- No investment is allowed in unrated bonds
- If a bond is downgraded to below investment grade, it would normally be sold within 6 months.

The limits set out in the Investment Management Agreement were adhered to throughout the period.

The collective investment schemes do not have a credit rating.

Derivative financial instruments

The Investment Manager has a credit risk policy that governs the assessment of credit risk and the process for selection of derivative counterparties. The Company maintains strict control on open derivative positions by amount and term. The use of International Swaps and Derivatives Association Master Agreements allows for close-out netting to reduce pre-settlement credit risk and provide a right of set-off upon the event of default. Additionally, where material, collateral may be received or pledged to reduce the level of credit risk in derivative contracts.

Other financial assets

The carrying amount of policyholder debtors and other financial assets represents the Group's maximum exposure to credit risk. The amounts presented in the statement of financial position are net of allowances for doubtful receivables.

Cash balances are regularly reviewed to identify the quality of the counterparty banks and to monitor and limit concentrations of risk. The Group has no material concentration of credit risk in respect of amounts due from insurance intermediaries and policyholders due to the well diversified spread of such debtors. The debt investments portfolio consists of a range of fixed interest instruments including government securities and corporate bonds, preference shares and other interest-bearing securities.

Reinsurance

All previous reinsurance arrangements have been materially run off and the Group has no remaining material exposure arising under reinsurance arrangements.

Financial assets bearing credit risk

The financial assets bearing credit risk are summarised below, together with an analysis by credit rating. The maximum exposure that the Company has to credit risk at the balance sheet date is the carrying value of the assets shown below.

	2018 £m	2017 £m
Category of asset		
Debt securities	**109.8**	108.5
Collective investment schemes	**67.4**	71.7
Cash equivalents	**7.1**	19.0
Derivative financial instruments	**-**	0.4
Reinsurers' share of provision for claims outstanding	**-**	0.2
Debtors arising out of direct insurance operations	**91.4**	69.7
Other debtors	**0.5**	0.5
Cash at bank	**33.6**	32.1
Accrued interest	**0.7**	0.7
	310.5	302.8

	2018 £m	2017 £m
Analysis by credit rating		
AAA	**37.1**	40.8
AA	**63.6**	62.4
A	**74.0**	58.3
BBB	**32.7**	36.3
Below BBB or not rated	**103.1**	105.0
	310.5	302.8

4. Financial risk and capital management (continued)

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with financial liabilities or insurance contract liabilities when they fall due. The Group is exposed to daily calls on its available cash resources from claims arising from insurance contracts and to settle its financial liabilities. The Group has robust processes in place to manage liquidity risk and has available cash balances and other readily marketable assets in case of exceptional need. The Group's risk policies are designed to manage the risks associated with asset and liability matching.

The following table shows the maturity profile of the Group's primary financial liabilities at the undiscounted amounts of their contracted future cash flows:

	31 December 2018 £m	31 December 2017 £m
Provision for outstanding claims		
Within one year	**15.0**	15.5
Between one and five years	**1.2**	0.9
After more than five years	**0.3**	-
	16.5	16.4

At 31 December 2018 the Group held cash and cash equivalent balances totalling £40.7m (2017: £51.1m).

All of the Group's other financial liabilities, which comprise accruals, trade and other creditors total £22.8m (2017: £28.7m) and are payable within one year.

Information about the expected timing of the net cash outflows resulting from recognised insurance liabilities is given in note 22.

e) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group has potential material exposure to four types of market risk: interest rate risk, equity price risk, currency risk and credit risk.

The exposure to interest rate risk arises primarily from valuation movements on financial investments that are measured at fair value and have fixed interest rates. The investment strategy is set by the Board and management follows this strategy in making investment decisions. The investment portfolio is reviewed by the Risk and Capital Committee to ensure that investments are maintained in line with the investment strategy.

The Risk and Capital Committee oversees the management of all investments, including cash balances, of the Group. The Committee meets quarterly to discuss and provide challenge to the decisions of management and of the investment manager appointed by the Board. External advisors are consulted to provide both investment and actuarial advice to support the Committee in setting the investment policy and strategy and to supplement the internal resource in challenging the investment manager's advice.

The Group is exposed to equity price risk because of both direct financial investments in equity securities and through other investment products with values linked to equity price movements. This risk is managed by holding a portfolio diversified across geographical regions and market sectors.

The Group's exposure to currency risk arises from the investment portfolio, with some purchased investments denominated in currencies other than sterling. This risk is managed through the use of foreign exchange forward contracts and diversification of currency exposures.

The Group's exposure to credit risk arises from potential changes in the risk profile of investment counterparties leading to increased risk of defaults. The management of this risk is further explained in note 4 (c).

The Group's only exposure to market risk is through its financial investment portfolio. The value of other financial investments and cash equivalents at 31 December 2018 is £183.3m (2017: £199.6m). The stress tests applied are weighted to reflect the value of the portfolio that is exposed to each variable.

4. Financial risk and capital management (continued)

e) Market risk (continued)

The sensitivity of reserves to movements in market risk variables, each considered in isolation, is shown in the following table:

Variable	Change in variable	Potential increase/(decrease) in profit after tax and equity 2018 £m	2017 £m
Interest rate risk	-50 basis points	**1.1**	0.8
	+200 basis points	**(4.1)**	(2.8)
Equity price risk	+10%	**1.7**	2.4
	-10%	**(1.7)**	(2.4)
Currency risk	+15%	**(0.9)**	(1.5)
	-15%	**0.9**	1.5
Credit risk	-50 basis points	**1.1**	(1.2)
	+50 basis points	**(1.1)**	1.2

The analysis of market risk sensitivity has been derived by the Group's independent external investment manager, using standard valuation techniques that are the same as those applied in the previous year. It has been assumed that:

- the value of fixed income investments will vary inversely with changes in interest rates;
- equity prices will move by the same percentage across all territories;
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in parallel; and
- credit spreads will move by the same percentage across all instruments and counterparties.

The change in profit is stated after tax at the standard rate applicable to the Group.

f) Capital risk management

The Group's capital comprises profits accumulated in prior years. It manages its capital on both economic and regulatory bases to ensure it has sufficient funds to meet its business objectives, the promises made to policyholders, and regulatory requirements.

Capital Management Policy

The Capital Management Policy seeks to optimise the balance between risk and return while maintaining economic and regulatory capital within the Group's risk appetite. This policy guides the definition, measurement, reporting and projection of capital, assessing the current and potential sources and uses of capital, addressing:

- The assessment of the optimal overall capital balance required to support appropriate financial strength and flexibility, with reference to the Group's risk appetite, regulatory requirements and the reasonable expectations of stakeholders including customers and suppliers.
- The allocation of capital within the organisation to ensure that legal entities, and the Group, hold adequate capital for the effective operation of their businesses.
- The rationing of capital to investment opportunities with the aim of delivering on Simplyhealth's long-term goals, growing the capital base and diversifying the risk profile of the Group's invested capital.

Capital Management Principles

The Capital Management Policy exists to provide guidance and governance over the holding and investment of the Group's overall capital.

The Group is required to maintain a solvency capital position in accordance with the Solvency II rules.

Capital headroom is represented by the capital surplus above our regulatory capital requirements, and adjusted for the Group's risk appetite. The risk appetite has been agreed with the Board of Directors and includes a capital buffer in excess of the higher of the Solvency Capital Requirement and the ORSA estimate of capital requirement as set out in the table below.

Capital above this buffer comprises resources which may be allocated to continued investment in the development of the Group's operations, subject to its risk appetite and targeted rates of return on capital. The Group sets a target rate of return for investment proposals to qualify for funding.

The Group's capital position is monitored on a regular basis as part of the standard performance reporting and review process and it has complied with the capital adequacy requirements of the Solvency II rules throughout the year.

4. Financial risk and capital management (continued)

f) Capital risk management (continued)

Capital Management

The Group operates a single fund in respect of its general insurance business.

The table below shows the capital available on a regulatory basis available to meet the regulatory Solvency II capital requirements for its general insurance business, which continues to represent a strong position:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Available capital resources		
UK GAAP net assets	**245.6**	270.1
Adjustments onto regulatory basis (2018 unaudited):		
Goodwill	**(38.9)**	(51.6)
Intangible assets	**(2.2)**	(16.8)
Deferred acquisition costs	**(0.4)**	(0.3)
Investment in joint ventures	**(1.8)**	(1.7)
Adjust technical provisions to Solvency II basis	**18.5**	18.6
Deferred tax valuation adjustments	**(3.3)**	(3.3)
Solvency II eligible own funds	**217.5**	215.0
Solvency II Capital Requirement ('SCR')	**56.4**	58.7
Capital Surplus	**161.1**	156.3
Solvency 'Buffer' @ 40% of SCR	**(22.6)**	(23.5)
Available Capital ('Headroom')	**138.5**	132.8
Solvency II Capital Multiple	**386%**	366%

The Group has used the Standard Formula as defined by Solvency II regulations to determine the SCR without undertaking-specific parameters or simplifications. Solvency II adjustments onto a regulatory basis, capital requirements and resultant multiples are unaudited.

Governance arrangements

The Chief Financial Officer owns the Capital Management Policy on behalf of the Board of Directors. The Board owns and agrees the definition of the Group's risk appetite. Governance over the implementation and operation of capital management is provided by the Risk and Capital Committee, a sub-committee of the Board.

Revision of key elements of the Capital Management Policy, such as an alteration of the Group's approach to meeting regulatory capital requirements or the composition of its own funds, is subject to approval within this governance structure.

5. Net operating expenses and other charges

Particulars of business

The Group has a single operating segment with one line of business that operates solely within the United Kingdom. Therefore no segmental analysis has been presented.

Technical account – net operating expenses	Year ended 31 December 2018		Year ended 31 December 2017	
	Continuing operations £m	**Discontinued operations £m**	Continuing operations £m	Discontinued operations £m
Acquisition costs	**8.7**	**-**	9.5	0.1
Change in deferred acquisition costs	**(0.1)**	**-**	-	-
Administrative expenses	**48.8**	**-**	44.2	-
Reinsurance commissions and profit participations	**-**	**-**	-	(0.1)
	57.4	**-**	53.7	-

The commission for direct insurance business for 2018 is £1.9m (2017: £1.5m)

The other charges includes the operating expenses of the non-insurance businesses. The charge in the statement of comprehensive income includes the following:

Non Insurance companies – other charges	Year ended 31 December 2018		Year ended 31 December 2017	
	Continuing operations £m	**Discontinued operations £m**	Continuing operations £m	Discontinued operations £m
Administrative expenses	**31.4**	**-**	33.2	5.3
Cost of sales	**-**	**-**	-	1.7
	31.4	**-**	33.2	7.0

Amounts charged as administrative expenses in both the above tables include costs of £9.6m (2017: £8.1m) relating to our Transformation Programme and reorganisation costs of £1.9m (2017: £0.8m).

5. Net operating expenses and other charges (continued)

Loss on ordinary activities before exceptional items and tax is stated after charging/(crediting):

	Note	**Year ended 31 December 2018** **£m**	Year ended 31 December 2017 £m
Depreciation of buildings and tangible assets	11, 17	**0.5**	0.9
Reversal of impairment of land and buildings	11	**(0.1)**	(0.1)
Amortisation of intangible assets			
- computer software	10	**1.2**	0.9
- brands and other intangibles	10	**0.1**	0.2
Operating lease rentals			
- motor vehicles		**0.9**	1.1
- buildings		**0.5**	0.8
- office		**0.1**	0.3
Amortisation of goodwill	9	**12.7**	12.7

Exceptional items	**Year ended 31 December 2018** **£m**	Year ended 31 December 2017 £m
Impairment in software development cost	**16.1**	-
Retail closure costs	**-**	5.2
	16.1	5.2

Impairment in software development costs

As explained in note 3, during the year the Directors concluded that some of our systems were not constructed in a way that would enable their development and adaptation for the digital future in a cost effective way. Consequently the Directors decided to halt the development of a significant project.

In accordance with FRS 102 the development costs of this project had been capitalised partly as development costs and partly as computer software within intangible assets on the basis of is future economic value and benefit. The decision to stop development significantly limits the future economic value of this project, which has, as a consequence, created an impairment loss £16.1m.

Retail closure costs

Exceptional items relating to retail closure costs incurred in 2017 include redundancy costs, the cost of exiting property leases, losses arising on the scrapping of tangible assets and the impairment of goodwill and other intangible assets.

Discontinued operations

Retail closure

In October and November 2017 the Directors decided to close the Group's retail business which operated by Totally Active Limited, a wholly owned subsidiary undertaking. In addition to the exceptional item for closure costs noted above, the statement of comprehensive income also presented the trading results of the retail business up to the date of closure within discontinued operations.

Sale of the Group's PMI business

In August 2015 the Group sold the fixed assets, goodwill and other trading assets and reinsured 100% of the insurance liabilities and net premiums of its PMI business under two separate agreements with AXA PPP.

During the year arrangements have been materially run off.

All amounts arising under these were fully reinsured.

Auditor's remuneration	**Year ended 31 December 2018**	Year ended 31 December 2017
	£m	£m
Fees payable to the Company's auditor for the audit of the Company's financial statements	**0.1**	-
Fees payable to the Company's auditor for the audit of the Company's subsidiaries including audit-related services	**0.3**	0.3
Total audit fees	**0.4**	0.3

The Group paid audit-related assurance service fees of £39,900 (2017: £38,800).

Fees for the audit of the Company's financial statements of £50,700 (2017: £39,000) were borne by another group company.

6. Staff costs

Staff costs comprise the following:	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Wages and salaries	**39.1**	41.3
Social security costs	**4.3**	4.4
Other pension costs	**5.0**	3.7
Total staff costs	**48.4**	49.4
The average number of employees during the year was as follows:	**Year ended 31 December 2018 No.**	Year ended 31 December 2017 No.
Operations	**701**	708
Finance and other administrative services	**525**	593
	1,226	1,301

The total remuneration for key management personnel for the period, excluding directors' remuneration which is disclosed separately, totalled £1.4m (2017: £1.7m) and is included within the total staff costs given above.

Directors' Remuneration

Policy

The Company recognises the importance of the Board of Directors in setting the values and direction of the Company. In order to attract and retain Directors with the required skills and experience, the Company must be competitive in the rewards offered to its Directors while ensuring that their remuneration promotes the long term success of the Company and Group. All rewards are set by the Remuneration Committee, comprised of Non-Executive Directors of the Board, after comparison with market data received from external consultants.

Non-Executive Directors

The role of the Non-Executive Directors is to provide challenge and advice, and to oversee the performance of the Company and Group. Simplyhealth therefore regards it as inappropriate that they should be financially incentivised on the Group's profitability or other financial performance measures. Each Non-Executive Director is paid a fee, with further allowances paid to those who take on extra roles, such as chairing one of the Board sub-committees, or acting in the capacity of Senior Independent Director.

The Non-Executive Directors are not employees of any company in the Simplyhealth Group, and are appointed to three-year terms. It is normal company policy to rotate the Non-Executive Directors in order that they retain their independence and objectivity.

Executive Directors

The role of the Executive Directors is to run the Company and Group on a day-to-day basis and Simplyhealth therefore regards it as essential that they are incentivised to meet its business goals. It is the Company's belief that each Executive Director must deliver and contribute to the overall success of the business and work effectively within the Executive Team, as they cannot deliver alone. Therefore they are rewarded on both personal and collective performance. Executive Director remuneration is made up of the following elements:

- **Salary and benefits –** which are contractual as an employee of the Company and Group, and are set competitively against market norms. Salary will not be increased in line with market norms where individual performance and leadership behaviours are not at the level required for successful stewardship of the business.
- **Annual bonus –** the level of which is decided based on the achievement of the overall business objectives for the year and the individual performance and leadership behaviours of the Executive.
- **Long Term Incentive Plan –** the Group is currently running two separate LTIP schemes. A new scheme was implemented on 1 January 2018 and is based on the achievement of business objectives over a seven year period. This new incentive plan was created to drive commercial success over a longer period, incentivising the Executive team to take decisions in the long term interest of the business promoting sustainability, as well as retaining their skills in the absence of a share option scheme.

  The 2017 Scheme, which is based on a three year performance period, continues to run alongside the new scheme until it vests at the end of 2019 with payments being made in 2020. The 2016 Scheme vested on 31 December 2018. The liability arising under this scheme will be paid in 2019.

The Executive Directors are permanent employees and employment continues until terminated by either party under the terms of the contract of employment. The notice period of these contracts is twelve months.

6. Staff costs (continued)

Directors' Remuneration (continued)

Pay and benefits in the year

The following amounts are paid or payable to the Directors for their service during the year:

	Salary £	Bonus £	Benefits £	Total 2018 £	Total 2017 £
Executive Directors					
R Abdin	390,551	103,574	124,385	618,510	752,722
B D J Kent (resigned 5 October 2018)	272,897	72,372	75,124	420,393	474,698
Total	663,448	175,946	199,509	1,038,903	1,227,420
Non-Executive Directors					
K S Piggott	139,766	-	-	139,766	137,025
G Baldwin (appointed 1 March 2018)	38,675	-	-	38,675	-
M A Hall	59,831	-	-	59,831	58,083
R J Harris	65,606	-	-	65,606	64,683
J N Maltby (appointed 25 June 2018)	28,370	-	-	28,370	-
A L Pike (resigned 15 February 2019)	47,106	-	-	47,106	46,183
Total	379,354	-	-	379,354	305,974

Total remuneration excludes pension contributions and long-term incentive plans which are shown below.

B D J Kent resigned as a Director of the Company on 5 October 2018. Following his resignation in 2018, £207,962 became payable as payment in lieu of notice and compensation for loss of office. These amounts are in addition to the remuneration shown in the table above and payments due under the Long-Term Incentive Plan ('LTIP') in respect of the 2016 and 2017 Schemes which are shown below.

LTIP

Entitlement

The Executive Directors participate in an LTIP, which provides an incentive payment based on the business performance over an agreed performance period. There are two schemes currently in force. The 2016 scheme vested on 31 December 2018 and forms part of the liability at the year end as it will be paid out in 2019.

The notional payment value on each scheme is calculated as follows:

	2016 and 2017 Schemes	2018 Scheme
Percentage allocation of Director's salary at 1 January	68%	68%
Performance period	3 years	7 years
Maximum performance related uplift	150%	nil
Multiplier	nil	5

The 2016 and 2017 Schemes applied a flat 68% allocation to the Director's salary at 1 January 2017.

The 2018 Scheme made an initial allocation of 68% of the Director's salary at 1 January 2018 and then applied a multiplier of 5 times this number to calculate the Director's entitlement at the end of the seven year vesting period. This calculation covers the Directors full entitlement in the seven year period and no further LTIP allocations will be granted until this Scheme vests.

6. Staff costs (continued)

Directors' Remuneration (continued)

LTIP (continued)

How the schemes operate

At the beginning of the relevant LTIP performance period, the Board agrees the key long term objectives and targets, both financial and non-financial.

At the end of each year, the Remuneration Committee reviews progress towards the objectives and targets and ensures that these remain appropriate and relevant for the remainder of the performance period.

At the end of the performance period the Remuneration Committee reviews performance against the objectives and targets to determine the amount of LTIP payment. None of the initial allocation is guaranteed meaning that if performance is below the required level less than, or none of, the allocation may be paid.

If performance exceeds the objectives and targets set in respect of the 2016 and 2017 Schemes, the Directors would be entitled to an additional payment of up to 1.5 times the notional value. As at 31 December 2018 no such additional payments were due.

The 2018 Scheme does not allow for any additional payments in excess of the notional value however if the objectives and targets set at the start of this Scheme are met before the seven year performance period is complete, the vesting of awards can be accelerated. However no payment can be made before 1 January 2020.

All amounts are payable in cash, since the Company has no shares.

The following movements took place during the year in respect of the directors who are members of the schemes:

	Notional value at 31 December 2017	Amounts paid in 2018	Amounts granted in 2018	Notional value at 31 December 2018
	£	£	£	£
R Abdin	417,316	(181,336)	311,191	547,171
B D J Kent	293,872	(127,950)	87,119	253,041
Total	711,188	(309,286)	398,310	800,212

Under the 2016 Scheme, which matured during the year, the following amounts which are included in the notional value above, became payable to the Directors:

	Amounts payable at 31 December 2018	Amounts payable at 31 December 2017
	£	£
R Abdin	**189,266**	181,336
B D J Kent	**133,546**	127,950
Total	**322,812**	309,286

The amounts in the table above are not included in Directors' remuneration.

The movement in the LTIP provision during the year was as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
	£	£
Accrued at 1 January	**711,188**	736,858
Granted during the period	**398,310**	306,941
Paid in respect of the 2014 scheme	**-**	(332,611)
Paid in respect of the 2015 scheme	**(309,286)**	-
Accrued at 31 December	**800,212**	711,188

Pension contributions

During the current and previous year no payments were made on behalf of the Directors in respect of pension contributions.

The Executive Directors are members of the Money Purchase Group Pension Scheme. They have each opted to receive a cash payment in lieu of further pension contributions. These payments are included in the benefits figures above.

The Executive Directors are permanent employees and employment continues until terminated by either party under the terms of the contract of employment. The notice period of these contracts is twelve months.

7. Income from investments

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Income from collective investment schemes	0.9	1.2
Bank and other interest	2.5	2.4
	3.4	3.6

All income from investments relates to continuing operations.

8. Tax on loss on ordinary activities

The Group's tax (credit)/charge for the year is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
United Kingdom corporation tax at 19% (2017: 19.25%)	-	1.3
Adjustment in respect of prior years	(0.8)	0.2
Total current taxation	(0.8)	1.5
Current year deferred taxation	(2.5)	(0.1)
Adjustment in respect of prior years	0.4	0.1
Total deferred taxation	(2.1)	-
Tax on loss on ordinary activities	(2.9)	1.5

The corporation tax credit for the year is lower (2017: charge is higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%) on the accounting loss

The differences are explained as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Loss on ordinary activities before taxation	**(27.4)**	(4.4)
Tax credit on loss at UK rate of 19% (2017: 19.25%)	**(5.2)**	(0.8)
Expenses not deductible for tax purposes	**2.7**	2.2
Impairment of intangible assets	**-**	(0.2)
Fixed asset timing differences	**-**	0.2
Relief for research and development costs	**(0.2)**	(0.2)
Deferred tax asset not recognised	**0.1**	-
Adjustments in respect of prior years	**(0.4)**	0.3
Effect of change in tax rates	**0.1**	-
Tax on loss on ordinary activities	**(2.9)**	1.5

9. Goodwill

Group	**Goodwill** £m
Cost:	
At 1 January 2018	126.6
Disposals	-
At 31 December 2018	**126.6**
Accumulated amortisation and impairment:	
At 1 January 2018	75.0
Amortisation for year	12.7
At 31 December 2018	**87.7**
Net book value	
At 31 December 2018	**38.9**
At 31 December 2017	51.6

10. Other intangible assets

Group	Development costs	Computer software	Brands and other intangibles	Total
	£m	£m	£m	£m
Cost:				
At 1 January 2018	9.9	29.6	1.8	41.3
Additions	2.8	-	-	2.8
Disposals	-	(8.5)	-	(8.5)
Transfer	(0.8)	0.8	-	-
At 31 December 2018	**11.9**	**21.9**	**1.8**	**35.6**
Accumulated amortisation and impairment:				
At 1 January 2018	-	23.7	0.8	24.5
Amortisation for the year	-	1.2	0.1	1.3
Eliminated on disposal	-	(8.5)	-	(8.5)
Impairment	11.9	4.2	-	16.1
At 31 December 2018	**11.9**	**20.6**	**0.9**	**33.4**
Net book value At 31 December 2018	**-**	**1.3**	**0.9**	**2.2**
At 31 December 2017	9.9	5.9	1.0	16.8

11. Land and buildings and investment property

Group	Freehold land	Freehold buildings	Total
	£m	£m	£m
Valuation			
At 1 January and 31 December 2018	1.2	5.1	6.3
Accumulated depreciation			
At 1 January 2018	-	-	-
Charge for the year	-	0.1	0.1
Reversal of prior year impairment	-	(0.1)	(0.1)
At 31 December 2018	**-**	**-**	**-**
Net book value			
At 31 December 2018	**1.2**	**5.1**	**6.3**
At 31 December 2017	1.2	5.1	6.3

The reversal of the prior year impairment is due to the revaluation of the freehold buildings to reflect the latest advice provided by the Group's surveyors, Colliers International UK plc, in December 2018.

The freehold and investment properties of the Group were professionally valued in accordance with the RICS Appraisal and Valuation Manual at 31 December 2018 by Colliers International UK plc, an independent external valuer.

If freehold land and buildings had not been revalued, they would have been included in the financial statements at the following amounts:

	31 December 2018		31 December 2017	
	Freehold land	**Freehold buildings**	Freehold land	Freehold buildings
	£m	£m	£m	£m
Cost	**1.2**	**11.8**	1.2	11.8
Accumulated depreciation	**-**	**(4.9)**	-	(4.7)
Historical cost value	**1.2**	**6.9**	1.2	7.1

12. Fixed asset investments

Company Investment in subsidiary undertakings	£m
Cost	
At 1 January and 31 December 2018	151.3
Impairment	
At 1 January 2018	13.2
Provided during the year	1.3
At 31 December 2018	**14.5**
Net book value **At 31 December 2018**	**136.8**
At 31 December 2017	138.1

As a result of the decision to stop further development of the Care for Life product, the Company increased the impaired in its investment in Simplyhealth Guidance Limited by £1.3m. The valuation of this investment at 31 December 2018 is £nil.

The details of investments in the subsidiary undertakings held by the Company as at 31 December 2018 are as follows:

Name of company	Principal activity	Class and percentage of shares held
Simplyhealth Holdings Limited *	Non-trading	Ordinary shares 100%
Simplyhealth People Limited *	Provision of people for Group activities	Ordinary shares 100%
Simplyhealth Wellbeing Limited *	Non-trading	Ordinary shares 100%
Simplyhealth Nominees Limited *	Non-trading	Ordinary shares 100%
Denplan Limited *	Provision of dental scheme administration	Ordinary shares 100%
Simplyhealth Guidance Limited *	Provision of health related guidance services	Ordinary shares 100%
Simplyhealth Access	Provision of insurance services	Ordinary shares 100%
Leeds Hospital Fund	Non-trading	Ordinary shares 100%
Simplyhealth Limited	Non-trading	Ordinary shares 100%
Simplyhealth Funding Services Limited	Arrangement of loans to dental practices	Ordinary shares 100%
Simplyhealth Business Services Limited	Non-trading	Ordinary shares 100%
Totally Active Limited	Provision of mobility and health related products	Ordinary shares 100%
Care and Mobility (Midlands) Limited	Non-trading	Ordinary shares 100%
Care and Mobility UK Limited	Non-trading	Ordinary shares 100%
The Animal Health Care Company Limited	Provision of administration for veterinary pet health plans	Ordinary shares 100%
Simplyhealth Partnerships Limited	Provision of investment in joint ventures in dental practices	Ordinary shares 100%

All companies listed above are registered in England & Wales.

* Directly held by Simplyhealth Group Limited.

All other investments are held through 100% controlled subsidiaries.

13. Other financial investments and derivatives

Financial assets	31 December 2018 Fair value £m	31 December 2018 Cost £m	31 December 2017 Fair value £m	31 December 2017 Cost £m
Debt and other fixed income securities	**109.8**	**110.2**	108.6	109.6
Collective investment schemes	**67.4**	**66.6**	71.6	65.8
Derivative assets	**-**	**-**	0.4	-
	177.2	**176.8**	180.6	175.4
Financial liabilities				
Derivative liabilities	**(1.0)**	**-**	-	-

The fair values of investments quoted in an active market are based on their bid market prices. For unlisted securities and all other financial assets for which there is no active market, the Group establishes fair value using appropriate valuation techniques.

These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis.

Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of fixed interest futures and foreign exchange forward contracts are based on market prices.

Fixed interest futures are exchange traded and currency forward contracts are traded over the counter. Both have been classified as Level 2.

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Net gains or losses arising from changes in the fair value of the derivative financial instruments are recognised immediately in the statement of comprehensive income within the heading 'Investment Returns'.

Derivatives	31 December 2018 Assets £m	31 December 2018 Liabilities £m	31 December 2017 Assets £m	31 December 2017 Liabilities £m
Foreign exchange forwards	**-**	**(1.0)**	0.4	-

13. Other financial investments and derivatives (continued)

Offsetting

The Group does not offset financial assets and liabilities in the statement of financial position unless there is a legally enforceable right to offset and the Group has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

Except for fixed interest futures and foreign exchange forward agreements, the Group has no financial assets and financial liabilities that have been offset in the statement of financial position as at 31 December 2018 (2017: £nil).

14. Investment in joint ventures

During the year Simplyhealth Partnerships Limited made investments in one (2017: four) joint venture which hold and operate the activities, assets and liabilities of a dental practice. Each joint venture has been established as a Limited Liability Partnership in which each venturer holds a 50% interest and has joint control.

The movement in investment in joint ventures during the year is as follows:

Group	31 December 2018 £m	31 December 2017 £m
At 1 January	**1.9**	0.9
Investment in joint ventures	**0.3**	1.0
Repayments of capital	**(0.2)**	-
At 31 December	**2.0**	1.9

No provision for impairment has been made in relation to investments in joint ventures. (2017: £nil).

15. Cash and cash equivalents

Group	**31 December 2018** £m	31 December 2017 £m
Cash at bank	**25.1**	23.7
Cash equivalents	**7.1**	19.0
Third party funds held under trust	**8.5**	8.4
	40.7	51.1

The Company's cash balance at 31 December 2018 was £4.7m (2017: £4.6m).

The Group administers a number of trust accounts under agreements between the Company and dentists and vets in accordance with the declaration of trust for each account. The accounts are used to manage cash collected by the Company from patients and pet owners for onward payment to dental and vet practices. No right of set-off exists between the trust accounts and any other bank accounts of the Company.

Total balances held in the trust accounts at 31 December 2018 amounting to £8.5m (2017: £8.4m) were included in the cash at bank and in hand on the Company's statement of financial position with an offsetting liability included in "Other Creditors" (note 21).

16. Other debtors

Group Amounts falling due within one year:	**31 December 2018** £m	31 December 2017 £m
Non insurance trade debtors	**0.5**	0.6
Corporation tax	**0.8**	-
	1.3	0.6

17. Tangible assets

Group	Computers & office equipment £m	Leasehold improvements, fixtures and fittings £m	Total £m
Cost:			
At 1 January 2018	8.4	7.6	16.0
Additions	1.4	1.3	2.7
Disposals	(4.2)	(5.9)	(10.1)
At 31 December 2018	**5.6**	**3.0**	**8.6**
Accumulated depreciation and impairment:			
At 1 January 2018	7.7	7.5	15.2
Charge for the year	0.3	0.1	0.4
Eliminated on disposal	(4.1)	(5.9)	(10.0)
At 31 December 2018	**3.9**	**1.7**	**5.6**
Net book value At 31 December 2018	**1.7**	**1.3**	**3.0**
At 31 December 2017	0.7	0.1	0.8

18. Deferred taxation

The Group's deferred tax assets calculated in accordance with FRS 102 were as follows:

	31 December 2018	31 December 2017
	£m	£m
Asset relating to timing differences on fixed assets	3.3	1.5
Asset relating to short term timing difference	0.1	0.4
Asset relating to losses and other deductions	0.6	-
	4.0	1.9

The movement in the Group's deferred tax asset during the year was as follows:

	31 December 2018	31 December 2017
	£m	£m
At 1 January	1.9	1.9
Deferred tax adjustment in respect of prior periods	(0.4)	(0.1)
Current year deferred tax	2.5	0.1
At 31 December	4.0	1.9

19. Deferred Acquisition Costs

	31 December 2018		31 December 2017	
	Gross provision	Reinsurers' Share	Gross provision	Reinsurers' Share
	£m	£m	£m	£m
At 1 January	0.3	-	0.3	(0.1)
Additional costs incurred	8.7	-	9.5	-
Amortisation through statement of comprehensive income	(8.6)	-	(9.5)	0.1
At 31 December	0.4	-	0.3	-

20. Capital and reserves

Group

Group capital consists only of accumulated profits as the Group has no issued share capital. Accumulated retained profits at 31 December 2018 were £245.6m (2017: £270.1m).

Company

The Company's capital consists only of accumulated profits as it has no issued share capital. Total reserves at 31 December 2018 were £141.4m (2017: £142.4m).

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a statement of comprehensive income for the parent company alone is not presented. The loss on ordinary activities after taxation for the financial year dealt within the accounts of the parent company is £1.0m (2017: loss of £4.7m).

21. Other creditors

Amounts falling due within one year:	**31 December 2018**	31 December 2017
	£m	£m
Trade creditors	**0.7**	2.1
Third party funds	**8.5**	8.4
Insurance premium tax	**6.4**	10.4
Corporation tax	**-**	0.8
Amounts due to AXA PPP	**-**	0.1
Other creditors	**3.3**	2.7
	18.9	24.5

22. Technical provisions

	Provision for Unearned Premiums		Provision for Outstanding Claims	
	Gross provision	Reinsurers' Share	Gross provision	Reinsurers' Share
	£m	£m	£m	£m
At 1 January 2018	59.1	-	16.4	(0.2)
Movement in provision	20.0	-	0.1	0.2
At 31 December 2018	**79.1**	**-**	**16.5**	**-**

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Group agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

The Group applies a prudent approach to its management of potential exposure to risks arising from its insurance contracts. A formal policy for managing insurance risk is in place and is overseen by the Risk and Capital Committee.

Gross provisions

The lines of risk underwritten by the Group are restricted to health insurance in which the Group has substantial experience. Where the Group wishes to enter new lines this is done using a controlled approach in order to manage the risk associated with new areas of business. The Group's policy is to establish a specific claims reserve at any point in time on each line of business, based on claims reported up to and including the last day of the accounting period, plus an amount in respect of claims incurred but not yet reported. Trends in claim rates and other market data are reviewed on a regular basis and premiums for new contracts adjusted accordingly. Each class of contract has a large population of homogeneous policyholders, and no insurance contracts are subject to concentration risk as policyholders are based throughout the UK. No one client represents more than 10% of total turnover. Therefore, no insurance contracts are deemed subject to concentration risk.

The Directors have assessed that a deterioration of 5% is the highest reasonably possible change in the loss ratio. Such a deterioration in the loss ratio of the health plan book during the year would have resulted in a reduction in profit before tax of £11.4m (2017: £8.5m) and a reduction in equity of £9.2m (2017: £7.2m). The latter represents 3.8% (2017: 2.6%) of the Group's capital. The Group's claims loss ratio has been disclosed in the Strategic Report as a key performance indicator.

Uncertainty about the amount and timing of claims payments is typically resolved within one year. Consequently, disclosure about claims development is not presented as this information is not considered relevant to the evaluation of the nature and extent of risks arising from insurance contracts.

22. Technical provisions (continued)

Insurance contract maturities

The net cash outflows resulting from recognised insurance liabilities have the following estimated maturities:

- Unearned premium reserves, for both the gross and reinsurers' share of the provision, are estimated to result in cash flows arising within 12 months of the year end date; and
- For outstanding claims provisions, including the provision for claims incurred but not reported, approximately 90.9% (2017: 94.5%) of both the gross and reinsurers' share of the provision are expected to crystallise as cash outflows and inflows respectively within 12 months of the year end date. The remaining cash flows, representing an immaterial amount of these provisions, are materially expected to settle within the subsequent 12 months.

Assumptions

The Group follows a process of reviewing its reserves for outstanding claims on a monthly basis. This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology. The work conducted on each portfolio is subject to an internal peer review, further review by external actuarial specialists and a management sign-off process.

The most significant assumptions in determining the net insurance reserves are the forecast monthly claims loss ratios by homogeneous risk group, and the extent to which reinsurers will share in the cost. Only the PMI business was subject to reinsurance and therefore the reinsurance assets related to it had the same sensitivity to change in assumptions as do the underlying gross reinsurance liabilities. This business has now been run off.

Changes in assumptions

There have been no significant changes in assumptions during the year.

23. Notes to the cash flow statement

Reconciliation of profit on ordinary activities before tax to net cash flows from operating activities	**31 December 2018** **£m**	31 December 2017 £m
Loss on ordinary activities before tax and exceptional items	**(11.3)**	(1.4)
Adjustments for:		
Share of profits in joint ventures	**-**	(0.1)
Reversal of impairment of land and buildings	**(0.1)**	(0.1)
Realised and unrealised loss/(profit) on investments	**7.1**	(2.5)
Increase in insurance technical provisions	**20.3**	40.8
Loss on disposal of tangible assets	**0.1**	-
Depreciation	**0.5**	0.9
Amortisation of intangible assets	**1.3**	1.1
Amortisation of goodwill	**12.7**	12.7
Exceptional item	**-**	(1.4)
Operating cash flow before movement in working capital	**30.6**	50.0
Increase in debtors	**(21.8)**	(47.1)
Decrease in creditors	**(10.0)**	(0.3)
Cash generated by operations	**(1.2)**	2.6
Taxation paid	**(0.8)**	(1.7)
Net cash flows from operating activities	**(2.0)**	0.9

24. Financial commitments

(a) Capital commitments

Group	**31 December 2018** **£m**	31 December 2017 £m
Authorised and contracted for by the Board of Directors	**0.5**	0.3

Financial commitments to capital expenditure primarily relate to development costs for new administration and IT systems that will further enhance our customers' experience.

(b) Other financial commitments

Group	**31 December 2018** **£m**	31 December 2017 £m
Sponsorship Authorised and contracted for by the Board of Directors	**3.1**	4.6

(c) Leasing

The Group has the following future minimum lease payments under non-cancellable operating leases:

Operating leases which expire:	**31 December 2018** **£m**	31 December 2017 £m
- within one year	**1.0**	1.1
- between one and five years	**2.7**	2.8
- in more than five years	**1.1**	1.6
	4.8	5.5

25. Related party transactions

No member of the Board of Directors had any interest in any contracts with the Group at the end of the year or at any time during the year, except that they are all contributors of Simplyhealth Group Limited as required by the Articles of Association.

The Company has taken advantage of the exemption in FRS 102 not to disclose details of transactions with

- Simplyhealth Group Limited and its subsidiary undertakings, 100% of whose voting rights are controlled within the group, that are included in the consolidated financial statements of Simplyhealth Group Limited; and
- Key management personnel.

There were no other related party transactions during the year.

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