
Civil Service Healthcare Society Limited

Annual Report and
Financial Statements

Year Ended 31 December 2013



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Established in 1929
Registered and Incorporated
Friendly Society No. 463F

Chief Executive and Secretary
David Royle

Member of the Association of
Financial Mutuals

Authorised by the Prudential Regulation
Authority and regulated by the
Financial Conduct Authority and the
Prudential Regulation Authority

Financial Services Register number 205346

CHAIRMAN'S STATEMENT

In last year's report, I said that the plan the Board had set at the beginning of 2012 for stabilising the Society's financial position following the deficit in 2011 was on course, but had yet to be fully delivered. Our aim in 2013 was to revive recruitment efforts in a measured and manageable way, maintain service standards, and generate a financial surplus as a contribution to the Society's future solvency.

We have been more successful with the second and third of these than with the first. Customer satisfaction with the service that members receive remains high, and it is a pleasure again to be able to pay tribute to the Kingston staff for the large part they play in achieving that outcome. We also generated a small surplus in 2013. As is explained in the main body of the report, on the basis on which our accounts have hitherto been constructed, this surplus was £100k. During the course of the year, we made a technical adjustment to the treatment of Deferred Acquisition Costs (DAC), in line with accepted accounting standards. The effect of this was to increase the surplus to £585k.

The position on membership levels has, however, been less favourable. Notwithstanding recent increases in premiums, the Society has been more successful in retaining existing members than we budgeted for, but despite the best efforts of our staff, we have been notably less successful in acquiring new ones, with only 778 new insured lives over the year. The net effect is that membership had fallen by the end of 2013 to 18,825 and the number of lives insured to 31,395. The reason lies partly in the general recruitment climate in which we are operating. The market in private medical insurance has been shrinking steadily in recent years, as increases in healthcare costs drive premiums higher, and our natural market has been disproportionately affected by the economic downturn. In recent months, we have refocused and intensified our recruitment efforts, directly and through carefully selected brokers, and it is to be hoped that this yields results in 2014.

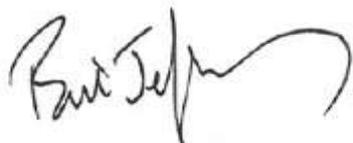
2014 will also be the 9th year of the scheme for rebates in the premiums paid by members of the previously fully funded Standard and Premium schemes. The Society is now close to discharging the commitment to this important group of longstanding members to a 10 year programme of rebates, with the amount of the rebate increased each year, to reflect among other things movements in investment income from the money set aside for this purpose. The Board is conscious that the end of the Scheme will raise issues for the members concerned and for the membership generally, and will be giving more thought to these in the coming year.

Although the Society's financial surplus is welcome, there are still areas of concern. These particularly affect the Your Choice scheme which, by virtue of its relatively comprehensive coverage, involves higher claims levels than the longer established schemes, and presents more of a challenge in matching premium levels to risk. The key solvency measure (broadly speaking the ratio of capital resources to assessed capital requirements) at the end of 2013 is still lower than we would wish.

At the beginning of 2014 the Board adopted a strategic plan for the period up to 2018 as described in the Strategic Report which follows.

CHAIRMAN'S STATEMENT (continued)

As I reported last year, discussions with potential strategic business partners have continued. The Board has so far ruled out, as not currently being in the best interests of the membership, options which would lead to the disappearance of the Society as a separate mutual entity; but discussions of more limited partnership options, to increase distribution channels, spread risk and reduce costs within broadly the current framework, are still going on. We will keep the membership informed of any significant developments.



Sir Bill Jeffrey

Chairman

28 March 2014

STRATEGIC REPORT

The Strategic Report has replaced the previous Chief Executive's Review to meet new requirements for corporate reporting. The content of the strategic report has 3 main objectives:

1. To provide context for the related financial statements
2. To provide an analysis of CS Healthcare's past performance
3. To provide an insight into CS Healthcare's main objectives and strategies, together with the principal risks faced and how they may affect prospects

CS Healthcare's Vision Statement is as follows:

CS Healthcare aims to deliver high quality and excellent value healthcare insurance and services, to meet members' needs, in a manner consistent with our mutual, not-for-profit status.

CS Healthcare's Core Values are as follows:

- Meet members' insured healthcare needs via valued and affordable products, in a way that treats them fairly and equitably and is consistent with our mutual status
- Offer helpful, efficient, proactive and friendly service
- Ensure CS Healthcare's financial viability, but reflect our mutual status in setting financial and performance targets
- Create a positive, rewarding and engaging environment for staff, to enable them to provide high quality service, and encourage loyalty and job satisfaction
- Ensure regulatory and governance standards are met

Overall

CS Healthcare's overall purpose is to provide Private Medical Insurance (PMI) and healthcare services to individuals and their families employed (or formerly employed) in the civil service, wider public sector or 'third' sector (charity, voluntary and not for profit).

CS Healthcare is a not for profit insurer owned by its members - a mutual Friendly Society. CS Healthcare places high importance on personal and efficient service for its membership at all times, including when making a claim or a health enquiry. Our strong reputation for quality of service was illustrated by the January 2013 'Which' magazine survey that rated CS Healthcare top of all providers in the provision of PMI.

The substantial deficit in 2011 and the smaller one in 2012 put strains on CS Healthcare's solvency position. Steps taken to improve the Society's finances have included repricing and focus on retention of current business rather than new business acquisition. These actions have contributed to a return to surplus in 2013. The outturn for 2013 has also benefited from a technical change to align our calculation of Deferred Acquisition Costs (DAC) with generally accepted accounting standards. The number of members has declined over the last two years. Our strategy for the next five years aims to reverse this with modest managed growth.

Membership and Claims Services

CS Healthcare generally operates in an efficient manner, and does not present members with a faceless 'call centre' environment. Members appreciate the speed of response and the 'human touch' we provide throughout their claim or enquiry during which they will often deal with the same person over the course of their claim or membership enquiry.

STRATEGIC REPORT (continued)

Regular membership and claims surveys are conducted, and are generally very positive. We seek to learn from complaints and negative feedback and make changes to address matters. We receive a substantial number of compliments and our reputation for service and settlement is equally good with hospital and medical providers. We aim to deal with members and claims services in specified timescales, and are generally in the 95%+ range for service standards that we have set.

Policy and Insured Life Data

At the end of 2013 CSH insured some 18,825 policies, which was 2,539 lower than at the end of 2012 (21,364). The number of insured lives fell to 31,395 from 35,961 in 2012, a fall of 4,566 or 12.7%. Although the loss of members through lapses and cancellations was unwelcome, it was in fact less than we had budgeted for, and was a substantial achievement given the scale of premium rate increases and the challenging economic circumstances. The lower level of new member acquisition has had the financial benefit of lower commission expenditure.

The PMI market remains a difficult one, with continued shrinkage over a number of years for Individual PMI.

Financial Performance

The progress made in 2012 has continued through into 2013, with a small surplus being achieved.

On a like-for-like comparison with the deficit of £363K in 2012, a surplus of £100K was achieved. We have however during the course of 2013 aligned our basis of calculating Deferred Acquisition Costs (DAC) with generally accepted accounting standards. This had previously only included direct commission, and has now been revised to include direct costs of acquiring and drawing up new insurance contracts, and also indirect costs such as marketing and administrative expenses connected with the processing of proposals and the issuing of policies. This has aligned the true cost of acquisition with the premiums earned from the insurance contract. This is in line with recommendations in the Association of British Insurers (ABI) Statement of Recommended Practice (SORP). The DAC adjustment defers £485K of expenses from 2013 into the following year and hence increases the surplus by this amount.

Net premium and rebate fund income was some £32.1m, 4% below 2012 (£33.4m). Claims were unchanged at £26.9m from 2012. Hence underwriting surplus fell to £5.2m in 2013 from £6.5m.

Expenses were very substantially lower at £4.8m compared with £7.1m for 2012, driven by a fall in underlying expenses, much lower commission payments and the change to the DAC calculation.

Taking all these factors into consideration, the technical account surplus for the year was £392K, with investment and other income of £193K giving a total surplus of £585K.

STRATEGIC REPORT (continued)

Transfers have continued from the 'rebate fund' to the general fund of £3.3m for 2013 (£3.5m 2012). The rebate fund exists to provide a time-limited premium subsidy for ex-members of the pre-funded Standard and Premium schemes. Over time, the rebate fund has reduced as the capital has been distributed to those eligible. The value of the rebate fund and the rate of distribution to eligible members are reviewed by the Board on a regular basis. The £3.3m transferred represents the rebate credits applied to premiums during the year.

The general fund holds reserves to cover ongoing business activity and solvency requirements. Due to the financial surplus and change to DAC methodology, the general fund ended the year at £10.0m (£9.4m 2012).

Solvency

CS Healthcare is required to maintain a sufficient level of capital as determined by the Handbook of the Prudential Regulatory Authority (PRA). The Board's policy is that the Society should aim to hold enough capital to meet its solvency requirement of at least 1.5 times, with corrective action taken if it seems likely to fall below that level. At the end of 2013 the solvency ratio stood at 1.41. The strategic plan briefly described at the end of this report is designed in part to bring the solvency ratio back above 1.5.

People

CS Healthcare continues to have a motivated, skilled and positive workforce based in our Kingston office. We were pleased to be reaccredited with Bronze Investors in People award in May 2013 as part of our three year review cycle. A number of staff are studying for external industry qualifications, facilitated by the Society and service standards remain high.

The average number of staff grew from 64 in 2012 to 68 in 2013, with additions in particular made to our IT and Marketing departments.

The Board gives its thanks to all the staff at CS Healthcare for their contribution during the year and their commitment to providing good service, meeting members' needs and treating them fairly.

Regulation, Compliance and Risk Management

The Society continues to focus heavily on the need to allocate an appropriate proportion of its time and resources to meet our regulatory, risk management and governance objectives.

We have some strong risk management tools and processes and monitor performance against regulatory requirements and best practice on a regular basis. Work toward compliance with the new solvency regime, Solvency II has recommenced with the European Parliament having settled on an implementation date of the 1st January 2016. The Society is in a good position to adopt the new regime when it comes into force.

Future Outlook and Plans

We will continue to measure, and strengthen where required our solvency, acquisition, retention and competitive position to ensure that CS Healthcare is well-positioned in the market. A key will be to ensure we continue to retain our high service reputation.

STRATEGIC REPORT (continued)

We closely monitor risks through a comprehensive 'Risk Register' measuring prospective impact and likelihood as well as controls to mitigate risk, helped by the Audit, Risk and Compliance Committee, our internal auditors and through risk mitigation staff and line management. We consider the risk posed by reductions in solvency during our growth period have started to be successfully mitigated.

Towards the end of 2013 we developed and adopted a strategic plan for the 5 years 2014 to 2018, the main elements of which are:

- Consistent efforts to match price and risk over the period and to continue to strengthen the Society's solvency position
- Reversal of the downward trend in membership numbers and the achievement of growth by the end of the period at a manageable scale and pace, consistent with our capital position
- Modernisation of the Society's Information Technology to reduce long-term administrative costs and enable the development of new, more affordable products and more sophisticated pricing
- The maintenance of high service standards and of the Society's ethos as a mutual acting in the interests of its members
- The observance of high standards of governance and an open and constructive relationship with the financial regulators

The Board is also open to the possibility of forming a strategic relationship with another provider, to help reduce costs and develop new business, building on the Society's expertise and reputation. Some discussions with potential partners took place in 2013. These have been positive in spirit but have not so far yielded results.

Approved on behalf of the Board of CS Healthcare:



Sir Bill Jeffrey
Chairman



David Royle
Chief Executive

28 March 2014

BOARD OF DIRECTORS

Sir Bill Jeffrey KCB, BSc (65) :

Chairman

Bill Jeffrey is a retired Civil Servant with wide experience of corporate management in Government. The majority of his career was spent in the Home Office although he also held senior appointments in the Cabinet Office and the Northern Ireland Office. His last appointment was as Permanent Under Secretary of State in the Ministry of Defence from 2005 to 2010. Bill was appointed as a Non-executive Director at the 2011 AGM and was subsequently elected Chairman by the Board, succeeding Michael Legge at his retirement. Bill is also the Chairman of the Trustees of the Police Foundation and a Trustee of the Armed Forces Parliamentary Scheme. He is a member of the Society.

Nigel Fawcett MBA (64) :

Vice Chairman

Nigel Fawcett joined the Board in February 2011 and was appointed Vice Chairman in September 2013. He is a member of the Remuneration & Nominations Committee and was appointed Chairman of the Audit, Risk and Compliance Committee in October 2013. Nigel also served a member of the Investment Committee from November 2012 until October 2013. Nigel has extensive experience working in the industry demonstrated by his time with the Financial Services Authority and his secondment with Her Majesty's Treasury as head of the Mutual division. Nigel's particular area of expertise is in legislative policy and the corporate governance of mutuals, which has been particularly relevant to his membership of the Audit, Risk and Compliance Committee and the Investment Committee. He is a long-standing member of the Society.

David Royle MA (55) :

Chief Executive and Secretary

David joined the Society as Chief Executive in September 2001 and has been a Board member from that date. His background was in sales and marketing and he has worked in the insurance sector since 1992, having held senior positions at Norwich Union and UNUM Provident.

Russell Stephens BA (43) :

Deputy Chief Executive and Director of Marketing & Membership Services

Russell joined CS Healthcare in November 1999 and was appointed to the Board in 2004. His career spans many years experience in the health insurance industry, working in the private sector. Prior to CS Healthcare Russell was employed as an accident & health underwriter at UNUM Provident, prior to which he worked in a similar role for AIG Europe.

Howard Jones BA, ACMA (55) :

Director of Finance

Howard joined the Society as Director of Finance in April 2013 and was appointed to the Board in May 2013. Howard is a Chartered Management Accountant with over 30 years experience in financial management positions, with a significant proportion of this time being spent within the insurance sector. Prior to joining CS Healthcare Howard was employed by LAMP Insurance Company as Group Financial Controller.

BOARD OF DIRECTORS (continued)**Alan Shannon BA CB (65) :** *Non-Executive - Senior Independent Director*

Alan joined the Board in July 2004. In May 2013 he retired from having been Chief Executive of the Northern Ireland Prison Service, Permanent Secretary of the Department for Employment and Learning, and Permanent Secretary of the Department of Social Development. Currently he chairs the NI Advisory Committee of Marie Curie and the NI Federation of Housing Associations. He is also a member of the Senate of Queen's University, Belfast. Alan has been a member of the Society for 30 years and was previously the Chairman of the Membership Appeals Committee.

Gloria Craig CB, MA (65) : *Non-Executive*

Gloria Craig was appointed to the Board in April 2011 and is a member of the Performance & Investment Committee. Gloria held a number of senior positions during her career in the Civil Service, most recently reaching the level of Director General in the Ministry of Defence before she retired from the Civil Service in 2011. She has previously served as a member of the Membership Appeals Committee. Gloria has been a member of the Society since 2007.

Alan Fleming ACII (69) : *Non-Executive*

Alan joined the Board in 2011 and is a member of the Performance & Investment Committee. Alan also served on the Audit Risk and Compliance Committee from February 2011 until October 2013. His background has been insurance and risk management in multinational corporations, including serving as an Honorary Vice President and a former Chairman and Chief Executive of the Association of Insurance and Risk Managers. Alan has also had experience as an Insurance Regulator. Alan also is a Non-Executive Director at the Medical Dental Defence Union of Scotland and two Guernsey insurance companies and is a member of the Society.

Roger Cawse JP, MA (Exon), DMS, FCIB (63) : *Non-Executive*

Roger joined the Board in July 2013 and was appointed Chairman of the Performance & Investment Committee in October 2013. He spent 42 years working in Financial Services, the last 17 years of which were as a Chief Executive in private medical insurance. He has held both executive and non-executive posts on the Boards of friendly societies in addition to previous experience as Chairman of the Finance Committees of a major national housing association and a Hospiscare charity.

Adrian Rees LL.B, BA, FCIPD (69) : *Non-Executive*

Adrian was appointed to the Board in January 2013 and is a member of the Audit, Risk and Compliance Committee. Adrian has wide and long-standing experience in the insurance and healthcare sector, and served as the Chief Executive of Benenden Healthcare Society between 1994 and 2004. He also has experience in a number of other fields including law, change management and regulation and has worked in the Civil Service in the past. Adrian is a long-standing member of CS Healthcare and is also the Vice Chairman of the Civil Service Insurance Society (CSIS) and an adviser to both St Anthony's Hospital and the Daughters of the Cross of Liege.

Andrew Johnston MA, FIA, FSS (58) : *Non-Executive*

Andrew was appointed to the Board on a temporary basis on 10 September 2013 in accordance with Rule 16. Andrew worked for 30 years at the Government Actuary's Department providing actuarial advice on the provision and financial management of employment-based and state pensions. His last post was as the Deputy Government Actuary. Andrew has recently joined the Audit, Risk and Compliance Committee. Andrew has been a member of CS Healthcare since 1990.

BOARD OF DIRECTORS (continued)**David Hughes MA, D.Phil (64) : Non-Executive (retired from the Board in June 2013)**

David joined the Board in October 2010 and was also a member of the Audit, Risk and Compliance Committee. David is a retired actuary who spent much of his career in the Government Actuary's Department, where he was CS Healthcare's actuarial adviser.

Martin Sands MA (64) : Vice Chairman (retired from the Board in July 2013)

Martin joined the Board in July 2003 and was subsequently appointed Vice Chairman. He was appointed Chairman of the Investment Committee in July 2011 and was also a member of the Remuneration and Nominations Committee. He served on the Audit Committee from October 2002 until July 2010. Martin was a Senior Civil Servant in the Ministry of Defence until 2007. His previous experience in the Ministry of Defence included procurement, personnel and financial matters. He has been a member of the Society since 2000.

Robin Martin CB, MA (68) : Non-Executive (retired from the Board in October 2013)

Robin joined the Board in July 2004, and was the Chairman of the Audit, Risk and Compliance Committee. He is a retired Senior Civil Servant, having spent the majority of his career in the Inland Revenue, where he was the Director of Finance. He is also Chairman of the Trustees of a Housing Association in South West London. Robin has been a member of CS Healthcare since 1991.

REPORT FROM THE BOARD OF DIRECTORS

The Board of Civil Service Healthcare (CS Healthcare) is pleased to submit its report together with the audited financial statements for the year ended 31 December 2013.

Members of the Board

A list of Board members who held office during the year appears within 'Board of Directors' section in this report.

Principal Activity

CS Healthcare is a not-for-profit mutual Friendly Society committed to providing its members with excellent value high quality health insurance cover.

Going Concern

The Report and Accounts have been prepared on a going concern basis. The Board has reviewed the Society's business activities, financial position and principal risks as set out in the Strategic Report and supported by the financial position of the Society, its cash flows and liquidity position. The Board believes the Society has adequate resources to continue its operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis for the preparation of the annual Accounts.

Risk Management and Control

The Society seeks actively to manage all risks that arise from its activities. The principal risks inherent within the business are underwriting, operational, strategic, credit, market and investment risk.

The underwriting risk is that claims exceed the amount expected. This may either arise from an inaccurate assessment of the risks entailed in writing an insurance policy, or from factors wholly out of the underwriter's control resulting in the policy costing the insurer much more than it earned in premiums.

The operational risk is of loss arising from inadequate or failed internal processes or systems, human error or external events. For the purpose of managing operational risk, the Society divides this into a number of discrete areas, and then puts in place appropriate controls or other mitigating policies.

The strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

The credit risk is of loss arising due to another party not being able to meet its financial obligations as they become due. The exposure to credit risk from policyholders is not considered to be significant, as it is the Society's policy not to pay benefit for any treatment received during a period of premium arrears until the arrears has been settled in full. Any credit risk arising from the potential failure of the issuer of any of the Society's investments is mitigated by having strict guidelines on asset allocation and credit-ratings. There is no credit risk arising from reinsurance counterparties because the Society does not reinsure any of its business.

The market and investment risk could arise from fluctuations in values of income from assets or in interest or exchange rates. Additionally, there is a risk that the Society's fund performance does not achieve the expected returns, or assets held lose value.

REPORT FROM THE BOARD OF DIRECTORS (continued)

The Society manages these risks by ensuring that its asset mix is appropriate for the liabilities arising from the business, by factoring fluctuations in rates and values into its modelling and by holding its reserves in cash based assets.

The Society has a formal structure for identifying risks, determining an acceptable level of risk, and managing those risks with appropriate controls. The Board has ultimate responsibility for overseeing risk management, with detailed monitoring undertaken by the Audit, Risk and Compliance Committee and the Performance and Investment Committee. Risks are controlled by grading and reporting exposure and focusing review procedures, either internal or external, on key areas. The Board and its Committees are assisted in risk management by internal auditors appointed externally by the Society, who operate within the terms of an agreed Internal Audit Charter, a copy of which is available to members on request. Control policies and procedures are clearly set out and regularly updated and circulated throughout the Society.

Responsibilities of the Board

The Board is empowered to manage the business of the Society. The Board can confirm that no activity carried out by the Society during 2013 has been outside its powers.

It is the Board's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

Friendly Society legislation requires the Board to prepare financial statements for each financial year, which are fair balanced and understandable, and give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period. In preparing those financial statements the Board is required to:

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable the Board to ensure that the Accounts comply with the Friendly Societies Act 1992 and the regulations made under it.

The Board has general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of corporate and financial information included on the Society's website.

Board Member and Officers Liability Insurance

The Society maintains an indemnity insurance policy to cover errors and omissions which may be made by members of the Board and the Executive.

Fixed Assets

Full details of movements in tangible assets are shown in Note 9 of the financial statements.

REPORT FROM THE BOARD OF DIRECTORS (continued)

Complaints Policy

The Society prides itself on excellent customer service to its members. However if any member is dissatisfied with the service provided, they have recourse to a complaints procedure.

The Society ensures that all complaints are thoroughly investigated and the procedures for the handling and recording of complaints are fully documented. The Audit, Risk and Compliance Committee regularly reviews the number and type of complaints received to ensure that they are properly dealt with and corrective action is taken where necessary to prevent recurrence.

Auditors

The Society has decided that a formal tender review for the appointment of our external auditors is to take place in 2014; this was previously completed in 2005 and resulted in the appointment of Moore Stephens as our audit partner. They have stated that they are willing to continue in office and will be included in the review.

The tender will evaluate the performance, independence, objectivity and effectiveness of the potential external audit partners. Following the review, the proposal will be put to a future Annual General Meeting.

REPORT FROM THE BOARD ON CORPORATE GOVERNANCE

The Annotated Corporate Governance Code for Mutual Insurers

The Society is committed to following best practice in all aspects of Corporate Governance. The Board is accountable to the Society's members for the operation of the Society and regards good corporate governance as being fundamental to this responsibility. The Board is firmly of the view that, to comply with corporate governance best practice, the Society should aim to adhere to the principles and provisions of the Corporate Governance Code annotated by the Association of Financial Mutuals ('the Code').

It is the Board's policy to observe the Code wherever appropriate for an organisation of the Society's size and status, or to explain why we feel any deviation from the Code is acceptable or necessary.

The Board considers that throughout the year ended 31 December 2013 the Society has complied with the relevant provisions of the Code, unless otherwise stated in this report. It is the Board's view that the Society has applied principles of good corporate governance by adopting the procedures stated below.

The Board

The Board is responsible to members for ensuring that the Society meets its objectives and is appropriately managed. The Board meets regularly to determine the strategic direction, to review the Society's operating and financial performance and to ensure that the Society is adequately resourced and effectively controlled. The specific duties of the Board are clearly set out in its terms of reference that address a wide range of corporate governance issues and list those items that are specifically reserved for decision by the Board. Matters requiring Board approval include:

- The Society's strategy and business plans
- Acquisitions, disposals and other transactions outside delegated limits
- Financial reporting and controls.
- Solvency
- Membership rules
- The constitution of Board Committees
- Key business policies, including the remuneration policy

Matters that are not specifically reserved to the Board and its Committees under their terms of reference, or to members in general meetings, are delegated to the Chief Executive. The Board's terms of reference also set out those matters that must be reported to the Board, such as significant litigation or material regulatory breaches, and cover how matters are handled that arise between scheduled meetings.

The Board and its Committees generally operate in line with work plans agreed prior to the start of each year. At Board and Committee meetings, directors receive regular reports on the Society's financial position, risk management, regulatory compliance, key business operations and other material issues. The Chief Executive is responsible for following Board procedures and advising the Board, through the Chairman, on governance matters. All directors have access to the Chairman and Chief Executive. They also have opportunities to update their skills and knowledge.

The Board has adopted a procedure whereby directors may, in the performance of their duties seek independent professional advice at the Society's expense.

The Chairman

The respective roles of the Chairman and Chief Executive are distinct and held by different persons. The Chairman is responsible for leading the Board, and the Chief Executive is responsible for the management of the Society.

REPORT FROM THE BOARD ON CORPORATE GOVERNANCE (continued)

Board balance and independence

The Board currently comprises the Chairman, eight independent non-executive directors and three executive directors. Each non-executive director serves for a fixed term not exceeding three years after which time they may continue to serve subject to re-election at a General Meeting. There is no specified limit regarding the number of terms a director may serve, however non-executive directors who have served longer than 9 years will be subject to annual re-election at a General Meeting. The Board, on the recommendation of the Remuneration & Nominations Committee, may at its discretion nominate a candidate for re-election over the age of 70. The Board's policy is to appoint and retain non-executive directors who can apply their wider knowledge and experience to their understanding of the Society. In addition to the strengths of experience and diversity, the Board also seeks to comply with the requirements of the Annotated Corporate Governance Code on the independence of directors.

The Board performs an annual review of directors' interests in which all potential or perceived conflicts, including time commitments, length of service and other issues relevant to their independence, are considered. It is the Board's view that an independent non-executive director also needs to be able to present an objective, rigorous and constructive challenge to management, drawing on his/her wider experience as appropriate and where necessary to defend their position. To be effective, an independent director needs to acquire a sound understanding of the industry and the Society so as to be able to evaluate properly the information provided. Having considered these matters carefully the Board is of the opinion that all of the current non-executive directors are independent and free from any relationship or circumstances that could affect, or appear to affect, their independent judgement. A number of the Society's directors are also members of the Society. The administration and claims management of all such policies involving directors are conducted at arm's length.

Appointments to the Board

Any new appointments to the Board are a matter for the consideration of the Board as a whole and are subject to election at the next AGM. The Board have a Remuneration & Nominations Committee comprised of the Chairman, the Vice Chairman and the Chief Executive. The Committee is responsible for the selection and nomination of any new member for the Board's consideration in accordance with the Society's Rules, and the Board Diversity Policy:

The Society recognises the benefits of the principle of diversity. Diversity throughout all staff at the Society, as well as the Board, is seen as an essential element in maintaining a competitive edge. A diverse Board will make good use of differences in people through their skills, industry experience, backgrounds, gender and race, as well as other qualities.

Diversity also includes a spectrum of perspectives and personalities as well as work style. The Society is committed to increasing diversity amongst the Board through succession planning, without compromising on the calibre of Directors.

New appointments to the Board will be selected by the Remuneration & Nominations Committee and will be based on merit against objective criteria as well as complementing and expanding the skills, knowledge and experience of the Board as a whole. Recruitment from groups that reflect our member base will be encouraged where they are currently under represented.

Furthermore, the Committee will consider the benefits of all aspects of diversity including, but not limited to those described above, and will comply with all/any relevant legislation (through advice and guidance from Human Resources) to ensure due process is followed.

REPORT FROM THE BOARD ON CORPORATE GOVERNANCE (continued)

As part of the performance evaluation of the Directors, Board and Board Committees, the Remuneration & Nominations Committee will consider the balance of skills, experience, independence, relevant knowledge and will be responsible for developing measurable objectives for diversity of the Board.

This policy has the full support and approval of the Board of Directors.

Candidates for non-executive roles have hitherto been identified through industry and other sources and contacts, supported by informal interviews with the Chairman and Chief Executive. This process takes account of the Society's diversity policy and the need to appoint people with the right combination of skills, experience and personality to complement the existing Board membership. For an organisation of the Society's size, the view has been taken that formal advertisement and the use of search consultants would be disproportionately expensive.

Information and professional development

The Board believes strongly in the development of all its employees and directors. All new employees and directors undergo a formal induction process and ongoing training is provided as required. During 2013, directors attended external courses on issues such as regulatory change. In addition non-executive directors were briefed on current issues such as conduct risks and industry developments.

Performance and evaluation

The Society has a formal performance evaluation system for all members of staff including executive directors. The Chief Executive appraises the senior management on their performance and this is reviewed by the Chairman. The Chairman undertakes a review and evaluation of the non-executive directors.

Board Committees

The Board has established the following standing Committees to oversee and debate important issues of policy and oversight outside the main Board meetings.

- Audit, Risk and Compliance Committee
- Investment Committee (renamed the Performance & Investment Committee from October 2013)
- Remuneration & Nominations Committee

Throughout the year the chairman of each Committee provides the Board with a summary of the key issues considered at the meetings of the Committees. The Committees operate within defined terms of reference approved by the Board, copies of which are available from the Chief Executive upon request. Board Committees are authorised to engage the services of external advisers at the Society's expense as they deem necessary in the furtherance of their duties.

Rule 41 of the Society's Memorandum and Articles of Association requires the Society to appoint an Actuary. The Society has appointed Steve Dixon Associates LLP to advise the Board and its Committees as required.

REPORT FROM THE BOARD ON CORPORATE GOVERNANCE (continued)

Audit, Risk and Compliance Committee	
Members	Responsibilities
<p><i>R Martin (Chairman until Oct 2013)</i> <i>N Fawcett (Chairman from Oct 2013)</i> <i>A Rees</i> <i>R Cawse (from July until Sept 2013)</i> <i>A Johnston (from Sept 2013)</i> <i>A Fleming (until Oct 2013)</i> <i>D Hughes (until July 2013)</i></p>	<p>The Audit, Risk and Compliance Committee comprises three non-executive members of the Board (excluding the Chairman and CEO). The Chief Executive normally attends Committee meetings together with the relevant members of the Senior Management Team.</p> <p>The Audit, Risk and Compliance Committee receive and consider reports by the Society's internal and external auditors, who have access to the Committee for independent discussion, without the presence of Society management if required. The Committee also receives and considers reports from the Financial Conduct Authority and Prudential Regulation Authority as they affect the Society's business.</p> <p>The Society's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed audit plan and report their findings to the Committee. Management is responsible for the implementation of agreed recommendations and the internal auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented.</p> <p>The Committee also advises the Board on the appointment of internal and external auditors and their remuneration for both audit and non-audit work.</p>

Investment Committee / Performance and Investment Committee (from Oct 2013)	
Members	Responsibilities
<p><i>M Sands (Chairman until July 2013)</i> <i>R Cawse (Chairman from Oct 2013)</i> <i>N Fawcett (Chairman from Aug 2013 until Oct 2013)</i> <i>G Craig</i> <i>D Royle</i> <i>H Jones (from April 2013)</i> <i>A Fleming (from Oct 2013)</i> <i>R Stephens (from Oct 2013)</i></p>	<p>The Investment Committee comprised three non-executive members and two executive members of the Board, including the Chief Executive and Director of Finance. The Investment Committee was responsible for the management of the Society's investments and setting investment strategy.</p> <p>Following the change to the Performance & Investment Committee in 2013, the Committee also provides advice to the Board on the Society's business performance (in addition to the responsibilities noted above). The Deputy Chief Executive has also become a member of the Performance & Investment Committee.</p>

Remuneration & Nominations Committee	
Members	Responsibilities
<p><i>B Jeffrey (Chairman)</i> <i>D Royle</i> <i>N Fawcett (from August 2013)</i> <i>M Sands (until July 2013)</i></p>	<p>The Remuneration & Nominations Committee comprises the Chairman, the Vice Chairman and the Chief Executive. The Committee's responsibilities are to decide the remuneration of members of staff taking into account the recommendations of the Chief Executive. Remuneration details for the directors are set out within the annual financial reports.</p> <p>The committee is also responsible for reviewing the composition and structure of the Board and for making recommendations to the Board on future appointments of Non Executive Directors.</p>

REPORT FROM THE BOARD ON CORPORATE GOVERNANCE (continued)

The attendance at meetings called during 2013 was as follows:

	Board	ARCC	IC/PIC	RNC
Number of Meetings held	8	8	5	2
Attendance				
B Jeffrey	8	-	-	2
A Fleming	7	7	1	-
D Hughes**	4	3	-	-
R Martin**	6	7	-	1
M Sands**	5	-	3	-
A Shannon	7	-	-	-
N Fawcett	8	1	4	2
G Craig	8	-	5	1
A Rees	7	8	-	-
R Cawse**	4	1	1	-
A Johnston**	3	2	-	-
D Royle*	8	8	5	2
R Stephens*	8	8	1	-
H Jones*/**	6	5	4	-

Key

ARCC: Audit, Risk and Compliance Committee.

IC/PIC: Investment Committee / Performance & Investment Committee.

RNC: Remuneration and Nominations Committee.

*Executive Board members are not members of the Audit, Risk and Compliance Committee but they and senior staff members attend Committee meetings as required.

** Retired/joined the Board within the year

Accountability and Audit

Financial reporting

The responsibilities of the Board in relation to the preparation of the Society's Report and Accounts and a statement that the business is a going concern can be found in the report from the Board.

Internal Control

The Annotated UK Corporate Governance Code requires directors to review and report annually to members on the effectiveness of the Society's systems of internal control which include financial, operational, compliance and risk management.

The Board has the overall responsibility for maintaining the systems of internal control of the Society and for monitoring their effectiveness; while the implementation of internal control systems is the responsibility of management. The Society's systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material financial misstatement or loss.

The systems are designed to:

- Safeguard assets
- Maintain proper accounting records
- Provide reliable financial information
- Identify and manage business risks
- Maintain compliance with appropriate legislation and regulation
- Identify and adopt best practice

The principal features of the control framework and the methods by which the Board satisfies itself that it is operating effectively are detailed below.

REPORT FROM THE BOARD ON CORPORATE GOVERNANCE (continued)

Control environment

The Society has an established governance framework, the key features of which include:

- Terms of reference for the Board and each of its Committees
- A clear organisational structure, with documented delegation of authority from the Board to executive management
- Defined procedures for the approval of major transactions and capital allocation
- The Audit, Risk and Compliance Committee which is responsible for reviewing the Society's financial and non-financial risks

The Society's risk and governance framework has been structured in accordance with the Prudential Regulation Authority and Financial Conduct Authority's risk-based framework for integrating and embedding risk and capital management.

Relations with Members

The Society places considerable importance on communication with members and engages them on a wide range of issues through its member magazine "Care" issued three times during 2013. Through "Care" magazine the Society also introduced a programme of Member Forums which are designed to help the Society, and in particular the Board and Non-Executive Directors, understand the views of the membership on issues such as strategy, existing product development and new product design. The Society also continued to issue member satisfaction surveys and used in-house systems to record feedback received from members on all aspects of the Society.

Each year, the Society undertakes a review focussing on the six consumer outcomes identified by the Financial Conduct Authority, to ensure that Treating Members Fairly is at the heart of the Society and at the centre of every business decision made.

Role of the Annual General Meeting (AGM)

Each year the Society sends individual notices to all members as required by its Rules. Proxy voting forms are made available so that members who are unable to attend the meeting may cast their vote.

A vote is taken in relation to each resolution at the AGM and all proxy votes are included. All members of the Board attend the AGM each year (unless their absence is unavoidable) and the Chairman of the Board, the Chief Executive and Committee Chairmen are available to answer questions.

Statement of compliance with the Annotated UK Corporate Governance Code

The Board considers that throughout the year ended 31 December 2013, the Society has applied the relevant principles and complied with the relevant provisions of the Annotated Corporate Governance Code for Mutual Insurers with the main exceptions as follows:

- **Appointments to the Board:** the Board has an approved policy on diversity, including gender. This does not include defined measurable objectives but the Board is determined to improve its overall diversity.

REPORT FROM THE BOARD ON CORPORATE GOVERNANCE **(continued)**

- **Board evaluation & re-election:** a provision of the Code relates to the annual re-election of Directors as well as recommending that Board are externally evaluated every three years. The Board conducted an internal evaluation of its performance in 2012 and 2013 and plans to have an externally facilitated evaluation in 2014 which will include the performance of the Committees. Non-executive Directors are submitted for re-election by members of the Society at three year intervals. Executive Directors are not subject to re-election. The Board believes that this ensures an appropriate degree of continuity of operation.
- **Remuneration:** the current remuneration for Executive Directors includes a performance related element (via an annual bonus scheme) of up to 10% of basic salary. There is no documented procedure in relation to developing policy on Executive remuneration, although there are a number of activities that take place. These include the outcome of ad-hoc benchmarking exercise conducted, individual performance, workload and existing differentials, and wider questions of affordability in the light of the Society's overall financial position. The Remuneration and Nominations Committee is comprised of two non-executive directors and the Chief Executive. A third non-executive director will be added in 2014.
- **Procedures:** the Chairman of the Society is currently the Chairman of the Remuneration and Nominations Committee; however this will be reviewed during 2014.
- **Audit Committees & Auditors:** Although no member of the Audit, Risk and Compliance Committee holds an accounting or auditing qualification, all members have extensive experience of audit functions, finance, risk management and the operations of audit committees from their previous roles in senior management of public and not for profit organisations.
- **Relations with Members:** the Senior Independent Director was unable to attend the Member Forum held during 2013; however he was available to communicate with the membership at the AGM and post AGM event. The Member Forum held during 2013 included Non-Executive Director representation.

The Board does not regard these exceptions as a material departure from the Code. Further consideration of the above areas will be given by the Board during 2014.

REPORT FROM THE BOARD ON REMUNERATION

The Board is committed to achieving best practice in the determination and implementation of the Society's remuneration policy. The purpose of this report is to provide information on the policy and practices followed by the Board and the Remuneration and Nominations Committee. The composition and responsibilities of the Society's Remuneration and Nominations Committee are set out in the report from the Board on Corporate Governance.

Remuneration policy

The Board recognises the need to attract and retain able executives and motivate them to provide strong business performance and excellent customer service.

The policy is intended to deliver a competitive level and mix of remuneration compared with companies of a similar scale and complexity. Base salaries of all employees are reviewed annually (generally in December), and if considered necessary, are adjusted from 1 January in the following year to recognise the individual's role, performance and experience along with changes in the external executive pay market.

The remuneration of senior executives is determined by the Remuneration & Nominations Committee, which seeks independent advice from specialist remuneration consultants on current market rates for equivalent positions in healthcare and similar scale organisations. Non-executive directors' fees are reviewed periodically by the Remuneration & Nominations Committee with the assistance of independent advisors.

The remuneration of the Board members was as follows:

Salary	Bonus	Pension Contributions	Benefits	2013 Total	2012 Total
£000	£000	£000	£000	£000	£000

Non-Executive						
B Jeffrey	25	-	-	-	25	25
J Estall *	-	-	-	-	-	5
R Martin **	12	-	-	-	12	15
M Sands	-	-	-	4	4	4
A Shannon **	6	-	-	-	6	-
D Hughes **	5	-	-	-	5	10
A Fleming	10	-	-	-	10	10
N Fawcett	12	-	-	-	12	10
G Craig	10	-	-	-	10	10
A Rees	10	-	-	-	10	-
R Cawse **	6	-	-	-	6	-
A Johnston **	3	-	-	-	3	-

Executives						
D Royle	106	7	16	8	137	138
T Noys *	-	-	-	-	-	3
D McFarlane *	-	-	-	-	-	49
R Stephens	72	6	9	7	93	88
H Jones **	52	3	1	5	61	-

TOTAL	329	16	26	24	393	366
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*Not full year remuneration in 2012

** Not full year remuneration in 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIVIL SERVICE HEALTHCARE SOCIETY LIMITED

We have audited the financial statements of Civil Service Healthcare Society Limited for the year ended 31 December 2013 which comprise the Income and Expenditure Account, Balance sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely for the Society's members, as a body, in accordance with the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state, to the Society'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 resume responsibility to anyone other than the Society's members as a body, for our audit work, for this report or other opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Board of Directors' Responsibilities Statement set out on page 14, the Board of Directors is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

Our assessment of risks of material misstatement

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- Valuation and ownership of the Society's investments at the year end and the recording of transactions throughout the year;
- Release of the rebate fund is made on an appropriate basis;
- Accuracy of the outstanding claims provision including those incurred but not reported;
- Potential of new business strain given the level of growth in recent years; and
- The Society's compliance with applicable regulations.

Revenue recognition and the risk of fraud arising from management override of internal control have been addressed.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIVIL SERVICE HEALTHCARE SOCIETY LIMITED (continued)

We also determine a lower level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Society to be £250,000, which is approximately 1% of premiums earned; for misstatements that only affect balance sheet classification a higher amount of £500,000 is used, which is approximately 2% of gross assets. We use these measures to ensure the level of uncorrected misstatements does not materially impact the Society's solvency calculations.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement is that performance materiality should be 70% of materiality, namely £175,000, and £350,000 for misstatements that only affect balance sheet classification. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected audit differences does not exceed our materiality of £250,000 for the financial statements as a whole.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all of the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The way in which we scoped our response to the risks identified above was as follows:

- In order to address risk around ownership of the Society's investments held at the period end, we confirmed the holdings to independent third party confirmations provided by the Society's Custodian.
- In order to address the risk around the valuation of the Society's investment we obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2013 and vouched these on a sample basis.
- In order to address the risk associated with the recording of investment transactions through the year ended 31 December 2013 we have tested a sample of transactions to independent documentation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIVIL SERVICE HEALTHCARE SOCIETY LIMITED (continued)

- In order to address the risk of the release of the rebate fund, we have agreed the basis of the release to actuarial recommendations and considered the assumptions made.
- In order to address the risk around the accuracy of the outstanding claims provision, we have examined the actuarial assessment of its valuation and considered the assumptions made.
- In order to address the risk of new business strain we have considered the adequacy of the Society's reserves and reviewed the future business plans.
- In order to address the risk over the Society's compliance with its regulatory environment we updated our understanding of the regulatory requirements and reviewed the Society's correspondence with its regulators and statutory filings.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2013 and of the income and expenditure of the Society for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Board of Directors has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents that we require for our audit.



M P Burnett
Senior Statutory Auditor

For and on behalf of Moore Stephens
Chartered Accountants & Statutory Auditor
28 March 2014

STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013	2012	2013	2012	2013	2012
		General Fund	General Fund	Rebate Fund	Rebate Fund	Total	Total
		£000	£000	£000	£000	£000	£000
TECHNICAL ACCOUNT – General Business							
Premium income received from members		28,787	29,894	-	-	28,787	29,894
Premium rebates transferred from rebate fund		3,281	3,457	(3,281)	(3,457)	-	-
		-----	-----	-----	-----	-----	-----
Gross premiums earned	2	32,068	33,351	(3,281)	(3,457)	28,787	29,894
Gross claims incurred	3	(26,857)	(26,899)	-	-	(26,857)	(26,899)
		-----	-----	-----	-----	-----	-----
Underwriting surplus		5,211	6,452	(3,281)	(3,457)	1,930	2,995
Net operating expenses	4	(4,819)	(7,139)	-	-	(4,819)	(7,139)
		-----	-----	-----	-----	-----	-----
Balance on the general business technical account		392	(687)	(3,281)	(3,457)	(2,889)	(4,144)
		=====	=====	=====	=====	=====	=====
NON-TECHNICAL ACCOUNT							
Balance transferred from technical account		392	(687)	(3,281)	(3,457)	(2,889)	(4,144)
Income from investments	5	8	10	3	5	11	15
Investment gains	5	214	337	77	297	291	634
Investment management charges	5	(29)	(23)	(16)	(20)	(45)	(43)
		-----	-----	-----	-----	-----	-----
Profit/(deficit) for the financial year		585	(363)	(3,217)	(3,175)	(2,632)	(3,538)
Fund balances brought forward	11	9,381	9,744	10,621	13,796	20,002	23,540
		-----	-----	-----	-----	-----	-----
Fund balances carried forward		9,966	9,381	7,404	10,621	17,370	20,002
		=====	=====	=====	=====	=====	=====

The above results relate wholly to continuing activities and the accompanying accounting policies and notes form an integral part of these financial statements.

The Society had no recognised gains or losses other than those included in the movements on the Technical Account and therefore no separate statement of recognised gains and losses has been presented.

Operating performance figures compared with 2012 are contained in columns headed General Fund. It will be seen that balance in the General Fund increased by £585k to end the year at £9,966k.

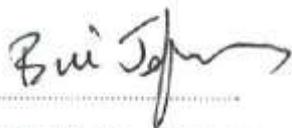
Expenses in 2013 have excluded £485k of costs incurred in the renewal and new business acquisition of policies, which have been deferred to 2014 (see the Strategic Report and note 10 Deferred Commission and Acquisition Costs).

For an explanation of the Rebate Fund, see the Board's Strategic Review.

BALANCE SHEET

AS AT 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
ASSETS			
Investments			
Freehold land and buildings	7a	525	450
Other financial investments	7b	22,071	24,408
		22,596	24,858
Debtors			
Debtors arising out of direct insurance operations	8	8,127	8,539
Other assets			
Tangible assets	9	539	644
Cash at bank and in hand		77	864
		616	1,507
Prepayments and accrued income			
Other prepayments and accrued income		185	142
Commission and acquisition costs	10	754	363
		32,278	35,410
TOTAL ASSETS			
LIABILITIES			
Capital and reserves			
General and rebate funds	11	17,370	20,002
Technical provision			
Provision for unearned premiums	12	11,478	11,726
Claims outstanding & associated administrative costs	13	2,724	2,942
		14,202	14,668
Other creditors (including tax and social security)		485	490
Accruals		221	250
		706	740
		32,278	35,410
TOTAL LIABILITIES			



Sir Bill Jeffrey - Chairman



David Royle - Chief Executive & Secretary

The financial statements (p.27-36) were approved by the Board on 28 March 2014

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013		2012	
		£000	£000	£000	£000
Net cash inflow from operating activities					
Technical account surplus/(deficit) for the year			(2,889)		(4,144)
Depreciation charges	9		269		322
Decrease/(increase) in working capital:					
Decrease/(increase) in debtors	8	413		1,723	
Decrease/(increase) in prepayments		(43)		(44)	
Decrease/(increase) in Deferred Acquisition Costs and prepayments	10	(391)		1,210	
Increase/(decrease) in creditors:					
Provision for unearned premiums	12	(248)		(1,292)	
Claims incurred but not received		(218)		(122)	
Revenue creditors and accruals		(34)		(130)	
		-----	(522)	-----	1,345
			-----		-----
Net cash flow from insurance activities			(3,141)		(2,477)
Returns on investments					
Net investment income received from bank interest	5		2		5
Cost of Building Improvements	7a		(33)		
Capital expenditure					
Purchase of tangible assets	9		(164)		(115)
Investments					
Funds withdrawn from investment funds in the year	7b		2,550		2,500
			-----		-----
Increase/(decrease) in cash in the year			(786)		(86)
Opening bank balances			864		951
			-----		-----
Closing bank balances			77		864
			=====		=====

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Accounting convention

The financial statements of Civil Service Healthcare Society Limited ('the entity') have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the regulations') made under the Friendly Societies Act 1992 and applicable accounting standards in the United Kingdom and with all material provisions of the Statement of Recommended Practice (SORP) issued by the Association of British Insurers.

b. Basis of accounting

The financial statements have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Regulations.

c. Cash and cash equivalents

Cash and cash equivalents represent cash balances held by the entity at the reporting date.

d. Investments

i. Freehold land & buildings

The freehold investment properties owned by the entity are shown at open market valuation. Land and buildings are not depreciated.

ii. Other financial investments

Other financial investments are recognised at their year-end mid-market values at reporting date unless otherwise stated.

e. Debtors

Any outstanding amounts which the entity is contractually entitled to are treated as a debtor. Debtors represent amounts receivable from direct insurance operations.

f. Tangible assets (excluding freehold land & buildings)

Tangible assets are stated at historical cost less accumulated depreciation. Tangible assets which are not installed and ready for use at reporting date are classed as 'assets under construction'.

Depreciation is calculated using the straight line method to allocate cost less residual value over the estimated useful lives as follows:

• Computer software	4 years
• Computer hardware	3 years
• Office equipment	4 years
• Fixtures and fittings	5 years

Assets under construction are not depreciated. Depreciation methods, useful lives and carrying values are reviewed at each reporting date and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

g. Provision for claims outstanding

The provision for claims outstanding represents the estimated liability arising from procedures in current and preceding financial years which have not been paid by the Society. The provision includes an allowance for claims management and handling expenses. The Society engaged an external actuary who used claims history data (provided by the Society) and actuarial techniques to estimate the claims outstanding provision for 2013. Any over or under provision is adjusted as part of claims incurred in the following year. See note 13 for further information.

h. Premium income

Premiums are recognised as income over the life of each policy on an accruals basis. All contributions received have been allocated to the General Fund in accordance with the current rules.

i. Investment income

Income from investments is included on an accruals basis, together with any related tax credit, in the non-Technical Account. Dividends are accounted for when received.

j. Claims incurred

Claims are recognised when the liability occurs, irrespective of when notified, with estimates for amounts not yet notified (see Notes 3 and 13). Claims incurred are stated exclusive of claim handling costs.

k. Acquisition costs

Acquisition costs are defined as arising from the conclusion of insurance contracts including -

- Direct costs such as acquisition, commission or the cost of drawing up the insurance document or including the insurance contract in the portfolio.
- Indirect costs such as marketing costs or the administrative expenses connected with the processing of proposals and the issuing of policies.
- Acquisition costs arising from the obtaining and processing of policies is amortised over the period in which the related premiums are earned.
- Acquisition costs relating to a subsequent period are recognised as an asset on the balance sheet as a prepayment (Deferred Acquisition costs).

l. Realised and unrealised gains & losses

Realised gains and losses, being the difference between the net sale proceeds and the valuation at the previous Balance Sheet date or cost of acquisition if later, are included within investment income or investment expenses in the non-Technical Account.

Unrealised gains and losses are reported in the Technical Account and represent the difference between the year-end valuation of the investments and their valuation at the previous Balance Sheet date or cost of acquisition, if later.

m. Provision for unearned premiums

A provision for unearned premiums has been included in the Accounts which represent insurance premiums written during the current financial year by the Society which are not yet earned.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. EARNED PREMIUMS**

	<u>2013</u> £000	<u>2012</u> £000
Premiums received during the year	28,675	29,476
Change in the provision for premiums received in advance (see note 12)	112	418
	-----	-----
Premium rebates transferred from Rebate Fund*	28,787	29,894
	3,281	3,457
	-----	-----
Gross premiums earned	32,068	33,351
	=====	=====

*This represents amounts used to pay rebates for ex-funded scheme members

3. CLAIMS INCURRED

	<u>2013</u> £000	<u>2012</u> £000
Claims paid excl. claims handling costs	27,082	26,966
Net change in the provision for claims outstanding excl. handling provisions*	(225)	(67)
	-----	-----
Gross claims incurred	26,857	26,899
	=====	=====

*See note 13

4. NET OPERATING EXPENSES

	<u>2013</u> £000	<u>2012</u> £000
Acquisition costs - Direct costs - Commissions	789	2,558
Acquisition costs - Indirect Expenses	451	
Administrative expenses	3,579	4,581
	-----	-----
	4,819	7,139
	=====	=====
Administrative expenses include:		
Depreciation	269	322
Amounts payable by the Society to internal and external auditors:		
Statutory accounts	16	21
Other services (internal audit)	80	34
Other professional services	78	115
External actuary fees	180	231
Aggregate amount of directors' emoluments*	394	366
	=====	=====

*Includes salaries, fees, bonus, benefits in kind and employer's pension contributions

NOTES TO THE FINANCIAL STATEMENTS (continued)**5. INCOME FROM INVESTMENTS**

	<u>2013</u> £000	<u>2012</u> £000
Net Investment Income		
Investment income: Shares and bonds	9	10
Investment income: Bank interest	2	5
	-----	-----
	11	15
	=====	=====
Investment Gains		
Freehold land and buildings		
Unrealised gain (loss) on year-end revaluation (see Note 7a)	42	(50)
Other financial investments		
Unrealised gains on year-end revaluation (see Note 7b)	249	684
	-----	-----
	291	634
	=====	=====
Investment management expenses	(45)	(43)
	=====	=====

6. EMPLOYEE INFORMATION

The average number of staff employed by the Society (excluding non-executive members of the board) in the financial year was:-

	<u>2013</u> No.	<u>2012</u> No.
Administration	61	57
Business development	7	7
	-----	-----
	68	64
	=====	=====
Staff costs for the above positions were:		
	<u>2013</u> £000	<u>2012</u> £000
Wages and salaries	2,196	2,000
Social Security costs	229	211
Pension costs	86	91
	-----	-----
	2,511	2,302
	=====	=====

The split of employees and gender data is as follows: 28 male/40 female.

NOTES TO THE FINANCIAL STATEMENTS (continued)**7. INVESTMENTS**

	<u>2013</u> £000	<u>2012</u> £000
a) Freehold land and buildings		
Valuation: at 1 January	450	500
Cost of Building Improvements	33	
Unrealised gain (loss) on year-end revaluation (see note 5)	42	(50)
	-----	-----
At 31 December	525	450
	=====	=====

Freehold land and buildings are included at open market valuation at 31 December 2013 carried out by Wallakers, Chartered Surveyors. The property had an original cost of £303,743 and the office property is occupied by the Society.

	<u>2013</u> £000	<u>2012</u> £000
b) Other Financial Investments		
Valuation: at 1 January	24,408	26,256
Funds withdrawn	(2,550)	(2,500)
Dividends and interest reinvested (net of management fee)	(36)	(32)
Unrealised gains on year-end revaluation (see note 5)	249	684
	-----	-----
At 31 December	22,071	24,408
	=====	=====
Comprising: Insight Liquidity Plus Fund	17,846	21,811
Insight Liquidity Fund	1,227	2,597
Insight LIBOR Plus Fund	2,998	
	-----	-----
	22,071	24,408
	=====	=====

8. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	<u>2013</u> £000	<u>2012</u> £000
Arrears of members or policy holders	17	32
Sundry debtors	-	37
Unpaid premiums due on insurance contracts (see note 12)	8,110	8,470
	-----	-----
	8,127	8,539
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (continued)**9. TANGIBLE ASSETS**

	Assets under construction	IT & office equipment	Furniture & fixtures	Total
	£000	£000	£000	£000
Cost or Valuation:				
At 1 January 2013	(0)	2,416	349	2,766
Additions	52	97	16	164
Transfers	-	-	-	-
Disposals	-	-	-	-
	-----	-----	-----	-----
At 31 December 2013	52	2,513	365	2,930
	-----	-----	-----	-----
Accumulated depreciation:				
At 1 January 2013	-	(1,957)	(165)	(2,122)
Depreciation for the year	-	(210)	(59)	(269)
Disposals	-	-	-	-
	-----	-----	-----	-----
At 31 December 2013	-	(2,167)	(224)	(2,391)
	-----	-----	-----	-----
Net Book Value:				
At 31 December 2013	52	346	141	539
	=====	=====	=====	=====
At 31 December 2012	(0)	460	184	644
	=====	=====	=====	=====

10. DEFERRED COMMISSION AND ACQUISITION COSTS

Acquisition costs - Direct costs - Commissions	269	363
Acquisition costs - Indirect Expenses	485	-
	-----	-----
Total Deferred Acquisition Costs	754	363
	-----	-----

The accounting policy for acquisition costs has not changed but the basis of calculating the Deferred Acquisition Costs has been revised to include the indirect costs incurred in the renewal and new business acquisition of policies.

11. RESERVES

The Rebate Fund reserve is held in respect of the assets and liabilities of the ex-funded scheme members and is maintained in a separate account. This account will be used to subsidise future premiums.

The Society's total reserves were down by £2,632k (2012: down by £3,538k) due to the continuation of the drawdown from the Rebate Fund.

12. PROVISION FOR UNEARNED PREMIUMS

	2013	2012
	£000	£000
Premiums received in advance*	3,368	3,256
Provision for unpaid premiums (see note 8)	8,110	8,470
	-----	-----
	11,478	11,726
	=====	=====

The proportion of the premiums written during the year, relating to the unexpired period of these policies has been carried forward as unearned premiums provisions as at the balance sheet date.

*This relates to the proportion of premiums received in advance which is deferred to the next accounting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)**13. CLAIMS OUTSTANDING AND ASSOCIATED ADMINISTRATIVE COSTS**

	<u>2013</u> £000	<u>2012</u> £000
Claims outstanding	2,631	2,856
Associated claims handling costs	93	86
	-----	-----
Total provision at 31 December	2,724	2,942
	=====	=====

Claims outstanding includes a provision for claims procedures that have occurred, but have not yet been reported to CS Healthcare at the year end, plus a provision for claims that have been received but have not yet been processed for payment.

14. PENSIONS

The cost of Society contributions to the defined contribution scheme during the year was £86k (2012: £91k). There was an outstanding contribution of £7k at the year end (2012: £7k).

15. COMMITMENTS

	<u>2013</u> £000	<u>2012</u> £000
Annual commitments of the Society at the end of the year for non-cancellable operating leases are as follows:		
Operating leases which expire:		
Within one year	5	-
In the second to fifth years inclusive	67	74
Over five years	-	-
	-----	-----
	72	74
	=====	=====