



Annual Report and Financial Statements

Civil Service Healthcare Society Limited

Year ended 31 December 2015

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Chairman's statement

2015 has been an eventful year for the Society which has seen: the strongest financial performance for many years; the launch of our first new product for ten years; the last full year of the rebate scheme; topping the Which? table of PMI service quality for the second time in succession; the retirement of the previous Chairman and the resignation of the Chief Executive and appointment of a new Chief Executive.

Beginning on a personal note I am very pleased to have been appointed to succeed Bill Jeffrey following his retirement in the summer. Bill was an outstanding Chairman perfectly suited to have led us through a difficult period when the future of the Society depended upon stabilising its finances. The outcome for 2015 is testament to his achievements and makes my assumption of the Chairmanship considerably easier than when he was appointed in 2011.

It was unfortunate that one of my first duties as Chairman was to receive the resignation of Mark Rothery as our Chief Executive. In his short time with us, Mark refocused the Society, motivated our staff, oversaw the development and launch of our new HealthBridge product and made important organisational improvements. He was tempted away by new challenges in the Channel Islands and we wish him well.

The Board considers that in James Parker we have a more than capable successor. I am pleased to welcome James, who joined us at the end of January 2016 following an open recruitment. He brings a wealth of experience of medical insurance, having been until recently the managing director of the UK business of one of the largest participants in the market, and has clear vision for the future of the Society.

After two years of small surpluses it is gratifying to report a **larger surplus of £1.5 million for 2015**. We are seeing the benefits of a series of measures implemented over the last few years to better match the premiums we charge to the underlying risks and from work with our suppliers to minimise the charges we incur for medical treatments. We have been helped by some diminution in the number of claims we receive and by the loyalty of our members in renewing their policies with us.

The financial outcome for 2015 has **improved our position with capital resources of £11.7 million** now well ahead of the £7.1 million minimum capital our regulators expect us to hold. The ratio of these numbers, **the solvency ratio, now stands at 1.66 compared with 1.42** at the end of 2014. A new system of regulation, deriving from a European Directive known as Solvency II, took effect from 1 January 2016.

“
The strongest financial performance for many years... ”

Under this measure, described more fully in the Strategic Report, our initial assessment shows the Society to have reserves in excess of the minimum required.

Our improved financial position gives us a **degree of freedom which we have not had for a number of years**. This favourable outcome has enabled us to offset the recent increase in Insurance Premium Tax for Standard and Premium members as we approach the end of the rebate scheme in April. There has been much thought and planning as to how best to assist those affected by the rebate to cope with this transition particularly in improved communication. We will continue to keep a tight control on the costs of running the Society and of charges levied by our suppliers. We will continue to look for opportunities with strategic partners and suppliers which would improve the efficiency of the Society without impinging on the direct relationship between the Society and its members. We also plan to invest in a long-overdue replacement of our IT systems which will help us improve our effectiveness and the service we offer to members.

The launch in the late summer of our new lower-cost product designed to complement the NHS - HealthBridge - was well received and attracted much favourable press coverage. Launching a new product and distributing this by direct selling to potential members rather than through brokers was always going to be difficult. The number of HealthBridge policies sold by the end of 2015 was undoubtedly disappointing but not unexpected. Valuable information has been gained and new marketing and sales plans developed for 2016 will, the Board believes, lead to a much improved outcome.

Overall the number of lives we insure has continued to decline to 25,526 - a fall of 10% over the year. It remains critically important to reverse this reduction in membership and to achieve a measure of sustainable growth if the Society is to remain viable in the long term. This is the key challenge for the immediate future and one on which the Board and our new Chief Executive are focused.

Our service to members continues to be industry-leading. That we are providing what our members want is shown all too clearly in CS Healthcare having come **top of Which? Magazine's 2015 Private Medical Insurance PMI customer satisfaction survey of medical insurers' service - the second year in succession that the Society has achieved this accolade**. This outstanding outcome illustrates the quality and dedication of our staff. Many employees have also achieved an exceptional performance in gaining professional insurance qualifications. I give warm thanks to them all on behalf of the Board.

Pleasing as it is to be able to report such a good outcome for 2015 we must not be complacent. Medical insurance is a volatile business and factors can conspire to work against the Society as easily as in its favour. My predecessor made clear the difficulties facing this segment of the insurance market under pressure from increasing costs and declining numbers of policies. CS Healthcare is unique with its focus on being a quality provider with a mutual ethos tailoring its products and service to a clearly defined and cohesive marketplace in the civil and public service. There are serious challenges to be addressed but the Board is convinced that we are headed in the right direction to maintain a viable independent Society holding firmly to its values.

Andrew Johnston
Chairman

30 March 2016



Balance sheet reserves
of £11.7m



Top of Which?
Magazine's 2015 PMI
customer satisfaction
survey



Launch of
HealthBridge



Surplus of £1.5m
for 2015



Solvency ratio
now 1.66



**ANDREW
JOHNSTON**
CHAIRMAN

Strategic Report

The purpose of this Strategic Report is to provide:

- A context for the financial statements that follow
- An insight into the Society's main objectives and strategies
- An analysis of the Society's performance
- An assessment of the principal risks faced and how they affect the Society's prospects

Purpose

Civil Service Healthcare Society Limited provides health insurance for those who work, or have worked, in civil or public service and their families. Employees in other not-for-profit organisations such as charities and other mutuals are also eligible for membership.

The Society has been providing members with health insurance for over 85 years. As a not-for-profit mutual, premiums are used for the benefit of members rather than to generate a profit for shareholders. Our intention is to operate in a way that not only preserves the value of membership for current members but generates future value which will further enhance the Society. This will enable it to continue to meet the health insurance needs of present and future members.

Vision

To be the leading provider of health insurance to civil and public servants

Mission

The right products, at the right price, delivered by great people and service, all tailored to our marketplace.

Values

In pursuing our mission we will always adhere to the following core values:

- Remember we are a mutual serving those in civil and public service
- Strive for excellence
- Put our members first
- Create a positive, rewarding and engaging environment for our staff
- Not expose the Society to undue risk

Strategic Objectives

The Board has established four strategic objectives for the Society consistent with our vision, mission and values and that take account of recent performance, the external environment, the internal capabilities of the organisation and the best long-term interests of our members.

1 Ensure that the Society's finances are secure

This is a prerequisite for any financial services firm, not merely as a legal and regulatory duty but so that members can be confident that sufficient funds exist to meet the Society's obligations to them in their time of need.

“ The Society has been providing members with health insurance for over 85 years. ”

2 Increase the number of insured lives covered by the Society

In order to ensure the Society remains viable in the longer term, it needs a membership base of sufficient scale to be able to operate efficiently and affordably and to generate the funds to invest to continue to meet members' needs by offering attractive products and service.

3 Invest in our people and resources

Delivering the highest standards of service to new and existing members as well as reducing costs where possible all depend on the quality and performance of our people and systems. Efficient operation serves the best interest of our members by reducing upward pressure on premiums and freeing funds to invest in the future of the Society.

4 Operate as an effective mutual that reflects our values

CS Healthcare is unique. It is the only insurer that specialises in providing health insurance benefits to civil and public servants. It delivers a real mutual benefit for members and seeks frequent engagement with its membership. It is proud that the highest standards and values are embedded into the way that it operates.

The Board has set a number of short and long-term targets for each of these objectives and the 2015 review covers each of these areas in more detail.

Performance of the Society in 2015

Ensure that the Society's finances are secure

The Board's focus in recent years has been to improve the Society's financial position following financial deficits in 2011 and 2012. These arose from increased regulatory capital requirements due to administering more policies and higher than expected claims after a period of rapid growth in the membership. Small surpluses were recorded in 2013 and 2014 as the steps taken by the Board to stabilise the finances began to have an impact.

In 2015 a significant surplus of £1.5m was achieved. This has substantially improved the Society's financial position and gives us confidence that the Society is well placed to fund our business for the foreseeable future. The improvement has been delivered by the continued realistic pricing and scaling down of sales efforts through brokers which started in 2012, whilst working with our suppliers to mitigate the impact of medical claims inflation.

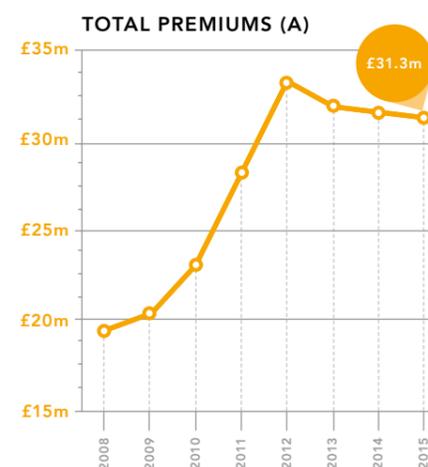
The key measures of the performance of the Society are premiums and claims. Premium income, net of insurance premium tax, only reduced marginally during 2015, from £31.8m in 2014 to £31.3m in 2015 (including rebate scheme transfers in both years). The cost of claims for the year fell from £26.4m in 2014 to £24.3m in 2015.

◀ The charts (A) and (B) show the amount of premiums and claims since 2008.

Transfers from the rebate fund to the general fund continued in the year totalling £3.0m in 2015 (£3.1m in 2014). The rebate scheme provided a time limited premium reduction for ex-members of the pre-funded Standard and Premium Schemes. These reductions remained in place until March 2016 at which point members had the choice of continuing with these policies without the premium reductions or of transferring to a lower premium/reduced benefit alternative.

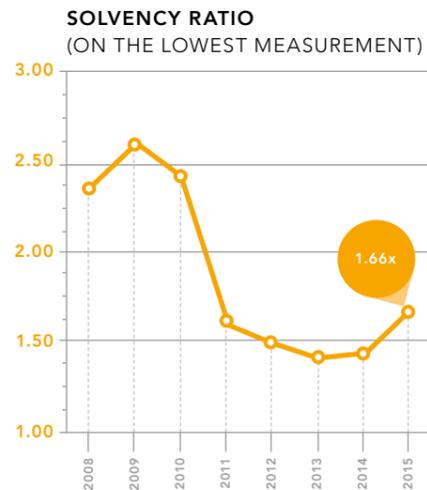
Expenses increased slightly to £5.6m in 2015 from £5.5m in 2014. The increase in 2015 (2%) includes the costs associated with the launch of the new HealthBridge product of £86k.

The general fund is the name for the Society's main reserves which cover ongoing business activity and solvency requirements. The fund ended the year with a balance of £11.5m (£10.0m in 2014).



Strategic Report continued...

The Society is required to maintain a sufficient level of capital as determined by the Prudential Regulation Authority (PRA). A number of measures are applied to calculate the level of capital required. The Board's policy is to exceed all those measures by a sufficient margin to provide assurance to members and the PRA that the Society is financially sound. The minimum level of solvency capital required to achieve this was calculated as a ratio of 1.5x the regulatory minimum capital requirement (MCR).



◀ The chart on the left shows the Society's solvency ratio since 2008. The lower level of solvency since 2010 reflects the rapid growth in the number of insurance policies between 2008 and 2011, which led to a requirement to hold higher levels of regulatory capital, together with losses incurred from higher than expected claims costs.

The ratio has now been improved by the surplus generated in 2015, lifting the ratio to 1.66x at the end of 2015 (1.42x in 2014).

From 1st January 2016, the Society is required to maintain a minimum level of capital as determined in accordance with the Solvency II Directive of the European Union. This Directive is intended to ensure that insurers have sufficient capital set aside to cover all insurance claims that they are likely to receive. A calculation will be conducted during 2016 based on data as at 31 December 2015.

Increase the number of insured lives covered by the Society

The actions taken in recent years to improve financial security concentrated on retaining current business rather than attracting new members. Consequently the Society's membership has reduced.

At the end of 2015, CS Healthcare insured 15,886 policies, which was 1,282 (7%) fewer than at the end of 2014. It insured 25,526 lives, a reduction of 2,870 (10%) during the year.

The Society is fortunate that members value their policies and traditionally have been much more likely to continue their policies at annual renewal than is seen elsewhere in the private medical insurance market. 2015 was no exception with 91% of policies renewing.

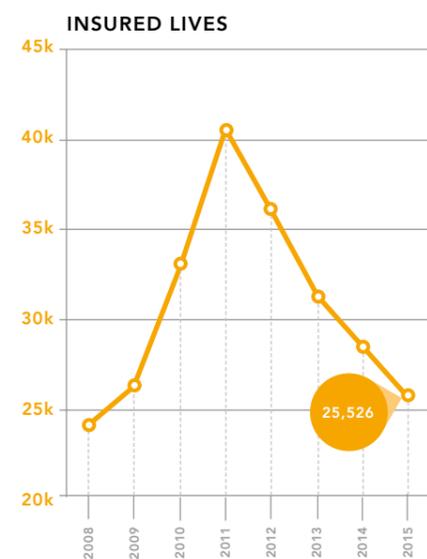
◀ This chart shows the movement in the number of insured lives since 2008.

A viable long-term strategy depends on reversing the reduction in membership and achieving a measure of manageable growth. To this end a new product, HealthBridge, was launched in 2015. Developing and delivering a new focus on sustainable growth by direct engagement with potential members was never going to be straightforward. Initial take-up has been disappointing, but marketing and sales plans will, the Board believes, deliver a better outcome in 2016.

Invest in our people and resources

CS Healthcare has a motivated, skilled and positive workforce based in our Kingston Office. In order to deliver the strong financial result in 2015, maintain excellent service levels and launch the new HealthBridge product our staff have embraced change whilst staying focused on delivering both their own and the Society's objectives. That they have been able to do this is testament to their commitment and hard work.

The average number of staff during the year remained at 71, unchanged from 2014, although by the end of the year the number of full-time equivalent (FTE) roles was 66 (64 FTE 2014).



“
The Society follows the highest standards and embeds its values in the way it operates.”

The Society is committed to encouraging the development of staff through support for industry qualifications as well as through other professional training. This enhances professionalism and efficiency in our operations and helps to motivate and retain our people. The outcome in 2015 was exceptional with 24 staff undertaking some form of professional training with the Society's support, of whom 15 were successful in gaining a recognised qualification.

Operate as an effective mutual that reflects our values

During the year the Society continued to engage with members through the AGM, member forums and our Care magazine. The Board is committed to maintaining the independence of the Society so that the focus on our vision and purpose of providing health insurance to civil and public servants remains clear.

The Society follows the highest standards and embeds its values in the way it operates. As an example, the new staff appraisal system introduced in 2015 includes explicit discussion and assessment of the key behaviours required from all employees. In this way we aim not only to achieve the right outcome at the right time, but ensure we do so in the right way.

Principal Risks and Uncertainties

The Board has ultimate responsibility for overseeing the identification of risk and its management. Detailed monitoring is undertaken by the Audit Risk and Compliance Committee (ARCC). Risks are identified and appropriate controls are put in place to manage and mitigate the likelihood and effects of each risk. This information is recorded in a risk register which is a key tool for review and monitoring by managers, ARCC and auditors.

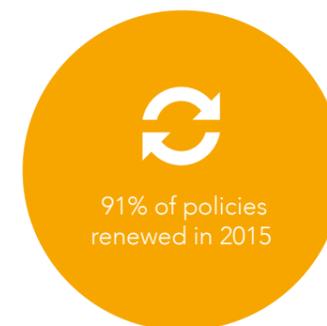
Risk identification, impact and control are key components of the new regulatory framework known as Solvency II, which took effect in January 2016.

In accordance with the requirements of the Solvency II Directive, the Board has developed a document known as the "Own Risk and Solvency Assessment" ("ORSA"). The ORSA is an essential risk management and system tool that documents, in both qualitative and quantitative terms, the processes and procedures employed to identify, assess, monitor and report on short and long-term risks that the Society faces or may face. The ORSA is a dynamic document which incorporates the Board's assessment of the capital required to ensure that the Solvency Capital Requirement is met at all times.

The requirements of Solvency II complement CS Healthcare's approach to risk. The key business risks and uncertainties affecting the Society are identified in the 'Report from the Board of Directors' on page 12.

Future Outlook and Plans

The Board remains committed to the four strategic objectives outlined above. The improved financial position of the Society changes the focus. The relative importance of growing the number of insured lives and ensuring that we are investing appropriately in our people and resources will increase. This is reflected in the Society's plans and activities for 2016.





A viable long-term strategy depends on reversing the reduction in membership and achieving a measure of manageable growth.))

Strategic Report continued...

Viability Statement

A new requirement of the UK Corporate Governance Code requires the Directors to state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over a defined period. This is known as a "Viability Statement". As the Society aims to comply with the relevant provisions of the Annotated Corporate Governance Code for Mutual Insurers, a viability statement is included below.

The Board has considered the viability of the Society over a three-year period. In arriving at this period the Board took account of the strategic plan, the short-term nature of the Society's insurance commitments to members and the inherent uncertainty of the risks faced.

The Board assessed viability through the ORSA, by reviewing the Society's financial position and improving solvency ratio, by evaluating the processes and controls the Society has in place to identify, manage and mitigate financial and operational risks and by considering the external market environment in which the Society operates. The risks faced and controls in place to mitigate these are described in more detail on page 12.

Based on this assessment the Board has a reasonable expectation that the Society will be able to continue in operation and meet all of its liabilities as they fall due up to December 2018.

In making this statement the Board has made the following key assumptions:

- the UK government and regulators will not make any changes to the taxation or legal framework of private healthcare insurance and provision which materially restrict the ability of the Society to operate
- the Society's investments will not suffer material losses resulting from a severe dislocation in the UK capital and banking market

The Board will continue to refine its approach to assessing viability in 2016 through the enhancement of the Society's stress testing and reverse stress testing.

Approved on behalf of the Board of CS Healthcare:

Andrew Johnston
Chairman

30 March 2016

James Parker
Chief Executive

30 March 2016

Board of Directors



Andrew Johnston MA, FIA, FSS (60)

Chairman (from September 2015)

Andrew Johnston was appointed Chairman in September 2015 and has been on the CS Healthcare Board since September 2013. He is Chairman of the Nominations Committee and a member of the Remuneration Committee. Andrew's career was spent at the Government Actuary's Department (GAD) giving strategic, policy and practical actuarial advice on the provision and financial management of employment-based and state pensions; he was the Deputy Government Actuary and a Executive Board Member at GAD. Andrew served on the Management Board of the World Trade Organisation Pension Plan for many years. Andrew has been a member of CS Healthcare since 1990.



Nigel Fawcett MBA (66)

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 and Nominations Committees 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 to 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.



James Parker BSc, ACMA (48)

Chief Executive and Secretary (from January 2016)

James Parker joined CS Healthcare to take on the role of Chief Executive in January 2016. James has over 25 years' experience in the Insurance industry with senior roles in both Cigna Healthcare and Prudential. He has a strong financial background as a qualified Chartered Management Accountant and experience of leading and growing businesses through changing commercial environments.



Russell Stephens BA (46)

Deputy Chief Executive and Director of Marketing & Membership Services

Russell joined CS Healthcare in November 1999 and was appointed to the Board in 2004. He has many years' experience in the health insurance industry, having worked both in the mutual and private sector. Prior to joining CS Healthcare, Russell was employed as an accident & health underwriter at UNUM, and before that he worked in a similar role for AIG Europe.

Board of Directors continued...



Howard Jones BA, ACMA (57)

Director of Finance

Howard Jones 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.



Alan Fleming ACII (71)

Non-Executive – Senior Independent Director

Alan Fleming joined the Board in 2010 and is a member of the Performance and Investment Committee. Alan also served on the Audit Risk and Compliance Committee from February 2011 until October 2013. His background has been in 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 is also 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 (65)

Non-Executive

Roger Cawse joined the Board in July 2013 and was appointed Chairman of the Performance and 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.



Alan Peddle BA, FCA (64):

Non-Executive (from August 2015)

Alan Peddle joined the Board as a non-executive director in August 2015 and a member of the Audit, Risk and Compliance Committee. Alan's expertise lies in finance and he has a wealth of experience in business and commercial management, governance and risk management. He spent his career with PwC and during this time worked closely with their in-house team of lawyers, in both litigation and counselling. He also has valuable experience of strategic planning and project management.



Gloria Craig CB, MA (67)

Non-Executive

Gloria Craig joined the Board in April 2011, is a member of the Performance and Investment Committee, was appointed Chairman of the Remuneration Committee in 2014 and is a member of the Nominations Committee. Gloria has 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 had past experience as a non-executive director of a London housing association and is now also a trustee of the Somerset Army Cadet Force and a mentor at the Royal College of Defence Studies. She has been a member of the Society since 2007.



Adrian Rees LL.B, BA, FCIPD (71):

Non-Executive

Adrian Rees was appointed to the Board in January 2013 and is a member of the Audit, Risk and Compliance Committee. He has wide and long-standing experience in the insurance and healthcare sector. From 1987, he was a member of the Benenden Healthcare Society Committee of Management until appointed as its Chief Executive in 1995, remaining in this position until 2004. He also has experience in a number of other fields including law, change management and regulation but his first career was in the then Inland Revenue. He is a member of CS Healthcare, Deputy Chairman of the Civil Service Insurance Society and an adviser to the Daughters of the Cross of Liege, a charitable trust. Adrian has been nominated as the CSH Whistleblowing Champion.

Sir Bill Jeffrey KCB, BSc (67)

Chairman (until September 2015)

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. He is a member of the Society. Bill retired as Chairman in September 2015.

Mark Rothery Dip CII, CDir (54)

Chief Executive and Secretary (until January 2016)

Mark Rothery joined CS Healthcare as Chief Executive in June 2014 and also became a member of the Board. In July 2014 he became non-executive director of Cornish Mutual. Mark has held senior positions in insurance mutuals for over 20 years. He was a member of the Financial Services Authority's Smaller Businesses Practitioner Panel for nine years. He was also a non-executive director of the friendly society trade association (the AFS) from 1999 to 2006, including a term as president in 2006. Mark stepped down as Chief Executive and Secretary in January 2016.

Report from the Board of Directors

The Board of Civil Service Healthcare Society Limited (CS Healthcare) is pleased to submit its report together with the audited financial statements for the year ended 31 December 2015.

Members of the Board

A list of Board members who held office during the year appears in the '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 in the business are underwriting and insurance, operational, strategic, cyber and technology, regulatory, credit, market and investment.

The underwriting and insurance 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. Claims processes, procedures and costs are monitored on a regular basis.

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 managed through consideration of our strategic goals, strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

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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. ”

Cyber and technology risk is the risk of financial loss, disruption or damage to our reputation and ability to perform operational tasks due to a failure of, or unauthorised access to, information technology systems. In recent times, many organisations have been subject to deliberate attempts to cause harm through the exploitation of any system vulnerabilities. The Society has a robust and regularly tested Business Continuity Plan to ensure effective mitigation of this risk.

Regulatory risk is the risk of non-compliance with the evolving regulatory environment in which we operate. Regulators are making judgements both about the robustness of regulated firms' business models, and the suitability of the products they are selling and will intervene promptly if they see or anticipate problems. Through management controls, the compliance monitoring programme and Internal Audit, this risk is closely monitored and managed.

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 initiated during a period of premium arrears until the arrears have 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 that assets held lose value. 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 2015 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.

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CS Healthcare is a... mutual... committed to providing its members with excellent value high quality health insurance cover. ”

Report from the Board of Directors continued...

Friendly Society legislation requires the Board to prepare financial statements for each financial year, which are fair, balanced and understandable, and provide the necessary information for members to assess the Society's performance, business model and strategy. 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 15 of the financial statements.

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

Following ten years of support from Moore Stephens, external audit was put through a competitive tender in 2015. As a result of the tender process Deloitte LLP was recommended for appointment. Members approved the appointment of Deloitte LLP as auditor at the 2015 AGM.

“
The Board sets
the tone for the
organisation.”

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 UK 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 2015, 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 sets the tone for the organisation and 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 which 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 for 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
has general
responsibility
for safeguarding
the assets of
the Society.”

Report from the Board on Corporate Governance continued...

7

Independent
Non-Executive
Directors

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 and Secretary 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.

Board balance and independence

The Board currently comprises seven independent Non-Executive Directors, including the Chairman, 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, but Non-Executive Directors who have served longer than nine years will be subject to annual re-election at a General Meeting. The Board, on the recommendation of the 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 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 or 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 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.



The Society recognises
the benefits of diversity

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 Annual General Meeting (AGM). The Board have a Nominations Committee comprised of three Non-Executive Directors (including the Chairman, and 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 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 among the Board through succession planning, without compromising on the calibre of Directors.

New appointments to the Board will be selected by the 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 People and Culture) to ensure that due process is followed.

As part of the performance evaluation of the Directors, Board and Board Committees, the Nominations Committee considers the balance of skills, experience, independence, and relevant knowledge and is 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 are identified through industry and other sources and contacts, supported by informal interviews with the Chairman, Chief Executive and another member of the Nominations Committee. 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 2015, directors attended external courses on various issues, including risk management and regulatory requirements. In addition Non-Executive Directors were briefed on current issues such as Solvency II and the Senior Insurance Managers Regime.

Report from the Board on Corporate Governance continued...

Performance and evaluation

Our Board effectiveness review in 2014 was externally facilitated by Lorraine Young Company Secretarial Services, and the results were discussed at the Board meeting in January 2015. Lorraine Young Company Secretarial Services were recommended to the Society following discussions between Nigel Fawcett and the Institute of Chartered Secretaries (ICSA). Nigel Fawcett previously provided consultancy services to ICSA. The review considered that all Board members were positive about the Board and its role and overall it was felt that the Board was moving in the right direction. A few areas were identified where the Board could evolve its present way of working to meet current thinking on best practice. Good progress has been made on the actions agreed in the evaluation including the continued focus on governance procedures to improve the support for Board Members and governance standards, regular risk reviews, a skills audit of current Board members, and a review of the composition of the Board Committees.

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. The Chairman undertakes a review and evaluation of the Non-Executive Directors.

During 2015 the Board accepted Mark Rothery's six-months' notice of resignation following his acceptance of a role with another company. Mark Rothery continued to fulfil the requirements of his role until 28 January 2016 whilst the Board took steps to find and secure a replacement using an external recruitment firm chosen as a result of an independent tendering process.

In 2015, the Nominations Committee engaged the services of Warren Partners, an executive recruitment firm independent of the Society, to assist with the recruitment of a new Chief Executive. Warren Partners helped to identify James Parker as a potential candidate. The Committee recommended to the Board that James Parker be nominated as Chief Executive and Secretary with effect from 28 January 2016. James Parker has a strong financial background and experience of growing businesses through changing commercial environments.

In September 2015, Sir Bill Jeffrey stepped down as Chairman of the Board and Andrew Johnston was elected as Chairman. In September 2015, the Board appointed Alan Peddle to the Board as a Non-Executive Director and member of the Audit, Risk and Compliance Committee (ARCC), subject to approval by the members at the AGM in 2016.

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
- Performance and Investment Committee
- Remuneration Committee
- Nominations Committee

Throughout the year the chair 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 Company Secretary 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 of Association and Rules requires the Society to appoint an Actuary. The Society has appointed Willis Towers Watson to advise the Board and its Committees as required, with Kate Angell being appointed as the Society's Chief Actuary (Senior Insurance Manager Function, SIMF20) in accordance with the Solvency II regime.

Audit, Risk and Compliance Committee

Members

N Fawcett (Chair)
A Johnston (until September 2015)
A Peddle (from August 2015)
A Rees

Responsibilities

The Audit, Risk and Compliance Committee comprises three non-executive members of the Board (excluding the Chairman). The Chief Executive normally attends Committee meetings together with the relevant members of the Senior Management Team.

The Committee receives and considers 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.

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.

The Committee also advises the Board on the appointment of internal and external auditors and their remuneration for both audit and non-audit work.

During 2015 the Committee recommended the appointment of a new external auditor, Deloitte LLP, with effect from October 2015. The Committee also regularly reviewed that the Society was adhering to the principles of Treating Members Fairly ('TMF'), whereby firms must be able to demonstrate that they are consistently delivering fair outcomes to consumers and that senior management are taking responsibility for ensuring that the firm and staff at all levels deliver the consumer outcomes relevant to their business through establishing an appropriate culture. The Committee reviewed the Society's work in preparing for the Solvency II regulatory changes and in creating and maintaining the Society's risk register.

Performance and Investment Committee

Members

R Cawse (Chair)
G Craig
A Fleming
H Jones
M Rothery (until January 2016)
J Parker (from January 2016)
R Stephens

Responsibilities

The Performance and Investment Committee comprises three non-executive members and three executive members of the Board, including the Chief Executive, Deputy Chief Executive and Director of Finance.

The Committee is responsible for the management of the Society's investments, setting investment strategy and providing advice to the Board on the Society's business performance.

During 2015 the Committee revised the Board's investment policy and reviewed financial and business performance with appropriate recommendations to the Board. It also carried out a banking services review and considered the investment strategy for the Board for the next two years, including risks and time frames.



Continued focus on governance procedures

Report from the Board on Corporate Governance continued...

The Remuneration and Nominations Committee was split into 2 separate Committees following approval by Members at the 2015 Annual General Meeting:

Remuneration Committee	
Members	Responsibilities
G Craig (Chair)	The Remuneration Committee comprises the Chairman, the Vice Chairman, one non-executive member 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.
N Fawcett	
B Jeffrey (until September 2015)	
A Johnston (from September 2015)	
J Parker (from January 2016)	
M Rothery (until January 2016)	During the year the Committee carried out an exercise to determine the new Chief Executive's remuneration with regard to best practice and a 2015 employee annual pay review. The Committee also discussed pay and staffing levels within CS Healthcare generally and how these would evolve over the duration of the 5 Year Plan.
	The Board acknowledged that under the new Senior Insurance Managers Regime (SIMR) driven by the Solvency II regulations, individuals would be held personally responsible and accountable for the safety of the firm and to provide protection for policyholders. In 2016, the Committee plans to carry out an independent, external benchmarking exercise for Non-Executive Directors, the Senior Independent Director and the Whistleblowing Champion with respect to their increased responsibilities.

Nominations Committee	
Members	Responsibilities
B Jeffrey (Chair until September 2015)	The Nominations Committee comprises the Chairman, the Vice Chairman, one non-executive member and the Chief Executive. The Committee is responsible for reviewing the composition and structure of the Board and for making recommendations to the Board on future appointments of Non-Executive Directors.
A Johnston (Chair from September 2015)	
G Craig	
N Fawcett	
J Parker (from January 2016)	
M Rothery (until January 2016)	During 2015 the Committee made recommendations to the Board for the appointments of a new Chairman, Chief Executive and an independent non-executive director. The Committee engaged an external executive recruitment firm to assist in the search for a new Chief Executive, employing a rigorous search process to identify potential candidates by gaining a thorough understanding of the strategic goals of the Society, identifying the competencies needed to meet those goals and taking account of the culture of our organisation. Neither external search consultancy nor open advertising was used in the appointment of the Chairman or the non-executive director, with the Committee drawing upon internal contacts.
	During the year the Committee also carried out a skills gap analysis. In 2015 the Committee will use the matrix created to identify the gap between the skills and knowledge needed on the Board according to the strategic plan, and what Board members currently possess. Based on the analysis, the Nominations Committee can clearly recommend priorities for future Board member recruitment.

The following table shows the attendance of Directors at Board meetings in 2015. Attendance is expressed as the number of meetings attended out of the number eligible to be attended.

	Board	ARCC	PIC	Rem	Nom
Number of meetings held	7	4	4	4	2
Attendance					
A Johnston	6/7	3/3	-	3/4	2/2
B Jeffrey**	4/4	-	-	2/2	1/1
R Cawse	6/7	-	4/4	-	-
G Craig	6/7	-	4/4	-	-
N Fawcett	6/7	4/4	-	4/4	2/2
A Fleming	7/7	-	4/4	-	-
A Peddle***	2/3	1/1	-	-	-
A Rees	7/7	2/4	-	-	-
M Rothery**	7/7	-	4/4	3/3	2/2
R Stephens*	7/7	-	4/4	-	-
H Jones*	7/7	-	4/4	-	-

Key:

ARCC:
Audit, Risk and Compliance Committee.

PIC:
Performance and Investment Committee.

Rem:
Remuneration Committee.

Nom:
Nominations Committee. The members of the Nominations Committee worked closely together throughout the process for recruiting a new Chief Executive in late 2015 with documented discussions but without formal meetings.

The Chairman holds meetings with the Non-Executive Directors without the executives present. Led by the Senior Independent Director, the Non-Executive Directors meet without the Chairman annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate.

* 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 from the Board during the year

*** Joined the Board during the year

Report from the Board on Corporate Governance continued...

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 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 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.

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
- Governance Map to identify these with SIMR responsibilities
- 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 continues to place considerable importance on communication with members and engages them on a wide range of issues through the member magazine "Care", which was issued three times during 2015. The Society also continued with the programme of Member Forums; in 2015 we ran a member forum focused on Standard and Premium Scheme members to understand how they felt about the end of the rebate and what alternative cover options they would like to see introduced. This was followed by a separate piece of research covering around 1,500 Standard and Premium members to further test possible scheme and cover options.



In 2015 the Society once again topped the Which? magazine PMI customer satisfaction survey.))

A significant increase in member engagement with the AGM through online voting demonstrates the strength of relationships with members.

In 2015 the Society once again topped the Which? magazine PMI customer satisfaction survey, and we even improved on the table-topping score from the 2013 report. We 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 focusing 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.

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. In 2014, members approved changes to the Society's Rules allowing the use of electronic communications for formal voting procedures. In 2015, the Society launched online proxy voting, making it even easier for those members who are unable to attend the meeting in person to have their votes counted.

All members of the Board attend the AGM each year (unless their absence is unavoidable) and all including the Chairman of the Board, the Chief Executive and Committee Chairs 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 2015, 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. Contracts for Board members do not include a provision that would enable the Society to recover sums paid to individuals in their capacity as a Board member as it is not considered appropriate given the size and scope of the Society. In addition, only Executive Directors are eligible for bonus payments and these do not represent a material proportion of their overall remuneration package and are only paid following annual performance reviews.
- **Board evaluation:** a provision of the Code relates to the annual re-election of Directors. 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.

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 2016.



A significant increase in member engagement with the AGM through online voting demonstrates the strength of relationships with members.))

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 Committee. The composition and responsibilities of the Society's Remuneration 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 employees are reviewed annually. In 2014, the Society appointed remuneration specialists the Hay Group to undertake a job evaluation and remuneration benchmarking exercise. The Hay Group is independent from CS Healthcare.

The remuneration of senior executives is determined by the Remuneration Committee, which seek 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 Committee with the assistance of independent advisors.

“
The Board is committed to achieving best practice in the determination and implementation of the Society's remuneration policy.”

The remuneration of the Board members was as follows:

Non-Executive	Salary £000	Bonus £000	Pension Contribution £000	Benefits £000	2015 Total £000	2014 Total £000
N Fawcett	17	0	0	0	17	17
B Jeffrey **	17	0	0	0	17	25
R Cawse	15	0	0	0	15	15
A Johnston	14	0	0	0	14	10
G Craig	12	0	0	0	12	10
A Fleming	11	0	0	0	11	10
A Rees	10	0	0	0	10	10
A Peddle **	4	0	0	0	4	0
M Sands ***	0	0	0	0	0	1
A Shannon ***	0	0	0	0	0	5
Executive						
M Rothery *	129	13	12	8	162	95
R Stephens	77	7	9	7	100	99
H Jones	72	6	9	7	94	92
D Royle ***	0	0	0	0	0	73
Total	378	26	30	22	456	461

* Not full-year remuneration in 2014

** Not full-year remuneration in 2015

*** Not full-year remuneration in 2014 or 2015

Mark Rothery also received remuneration of £9,125 during 2015 in respect of a Non-Executive Directorship with Cornish Mutual Assurance Company Limited. CS Healthcare agreed that Mark Rothery received 50% of his remuneration for this position, with the remaining 50% retained by CS Healthcare.

Independent Auditor's Report to the Members of Civil Service Healthcare Society Limited

Opinion on financial statements of Civil Service Healthcare Society Limited

In our opinion:

- the financial statements give a true and fair view of the state of the Society's affairs as at 31 December 2015 and of its profit for the year then ended;
- the Society financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Friendly Society Act 1992.

The financial statements comprise the Society Income and Expenditure Accounts, the Society Balance Sheet and the related notes 1 to 23. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Society

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Directors' Report on page 12 and the Directors' statement on the longer-term viability of the Society contained within the Strategic Report on page 8.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 12 that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 12-13 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 12 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 8 as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Society and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. The key risks we identified are:

#	Risk	How the scope of our audit responded to the risk
1	Valuation and classification of investments	
2	Technical reserving	
3	Revenue recognition	
#	Risk	How the scope of our audit responded to the risk
1	Valuation of investments The investment balance of £17.938m, set out in note 13 represents the majority of the assets held. The accounting policies around investments are detailed in note 3. Although these investments are highly secure and diversified, given the instability of the market, changes in market value can result in unrealised gains and losses which directly impact the technical account. There is a risk of misstatement if investments are not valued appropriately.	We have tested the valuation of investments by obtaining custodian statements and have also independently verified market prices used to value these investments. We have also obtained the latest SOC 1 report for the fund trustees to ensure service organisation controls are appropriate.
2	Technical reserving Technical reserves at year end stand at £3.51m as disclosed in note 19 according to the accounting policy disclosed in note 1. Technical reserving is inherently uncertain and requires management to make significant judgements about assumptions including loss ratios and claims patterns, as such our risk focuses on the valuation of the technical reserve.	We have engaged actuarial specialists to assist in challenging key judgements and the methodology used for consistency with the market. We have also completed testing on the underlying policyholder and claims data used in the reserving process in order to ensure that the reserve calculations are based data which is complete and accurate. As part of this testing samples have been agreed back to policy documentation and the policy database.
3	Revenue recognition The Society recognises premium income over the life of the respective policy on an accruals basis with an unearned premium provision representing the proportion of premiums relating to the unexpired term of the policies in force at year end. Premium income is a key-business driver. We assessed the primary area of risk in revenue recognition to be around the correct apportionment of premium income from policyholders, with a related risk of understatement of unearned premium provision. Further details of the accounting policy for premium income are in note 3.	We tested a sample of premiums back to the underlying policy data, including pre and post the year-end. We performed recalculations of both earned and unearned premiums based on policy start and end dates which were then compared to actual amounts recognised to assess whether this was in line with the Society's accounting policy. To confirm existence of the policy receipts were also agreed to bank statements.

Independent Auditor's Report to the Members of Civil Service Healthcare Society Limited continued...

The description of risks above should be read in conjunction with the significant issues considered by the Audit, Risk, and Compliance Committee discussed on page 15.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results. The application of materiality involves both quantitative and qualitative considerations.

We determined materiality to be £417,000 which is approximately 1.3% of gross written premiums. We consider gross written premiums to be the most appropriate benchmark as it is a key performance indicator used by the Society in assessing performance, but is not as volatile as a profit and loss measures.

We agreed with the Audit, Risk, and Compliance Committee that we would report to the Committee all audit differences in excess of £21,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit, Risk, and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Opinion on other matters prescribed by the Friendly Society Act 1992

In our opinion the report of the 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.

Other Matters

Corporate Governance Statement

Although not required to do so, the Directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code as annotated for mutual insurers. We reviewed the part of the Corporate Governance Statement relating to the society's compliance with certain provisions of the UK Corporate Governance Code as annotated for mutual insurers. We have nothing to report arising from our review.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Friendly Society Act 1992 we are required 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 required for our audit.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit, Risk, and Compliance Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team.

This report is made solely to the Society's members, as a body, in accordance with Section 73 of the Friendly Society 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 assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 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.



For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom

Elanor Gill FCA
Senior statutory auditor

30 March 2016

Statement of income and expenditure

For the year ended 31 December 2015

Notes	2015	2014	2015	2014	2015	2014	
	General fund £000	General fund £000	Rebate fund £000	Rebate fund £000	Total £000	Total £000	
Technical Account – General Business							
Technical Income							
Premium income received from members	28,339	28,659	–	–	28,339	28,659	
Premium rebates transferred from rebate fund	2,995	3,136	(2,995)	(3,136)	–	–	
Total Technical Income	See note 5	31,334	31,795	(2,995)	(3,136)	28,339	28,659
Technical Charges							
Gross claims incurred	See note 6	(24,305)	(26,423)	–	–	(24,305)	(26,423)
Net operating expenses	See note 7	(5,647)	(5,534)	–	–	(5,647)	(5,534)
Total Technical Charges		(29,952)	(31,957)	–	–	(29,952)	(31,957)
Surplus/(deficit) of income over charges							
		1,382	(162)	(2,995)	(3,136)	(1,613)	(3,298)
Transfer to Non-Technical Account		(1,382)	162	2,995	3,136	1,613	3,298
Balance on the General Business Technical Account		–	–	–	–	–	–
Non-Technical Account							
Income							
Investment income	See note 8	10	8	2	2	12	10
Unrealised gains on investment	See note 9	88	312	20	60	108	372
Other income		18	–	–	–	18	–
Total Income		116	320	22	62	138	382
Expenditure							
Investment expenses and charges		(46)	(46)	(5)	(10)	(51)	(57)
Total Expenditure		(46)	(46)	(5)	(10)	(51)	(57)
Excess of income over expenditure							
		70	274	17	52	87	325
Balance transferred from Technical Account		1,382	(162)	(2,995)	(3,136)	(1,613)	(3,298)
Surplus/(deficit) for the financial year		1,452	112	(2,978)	(3,084)	(1,526)	(2,973)
Transferred to fund balances	See note 17	(1,452)	(112)	2,978	3,084	1,526	2,973
Balance on the Non-Technical Account		–	–	–	–	–	–

The accompanying notes on page 34 to 41 form an integral part of these financial statements. Operating performance figures compared with 2014 are contained in the General Fund columns. The operating surplus for the year was £1,452k which has been allocated to the General Fund (see note 17). For an explanation of the rebate scheme see the Board's Strategic Report.

Statement of other comprehensive income

For the year ended 31 December 2015

Notes	2015	2014	2015	2014	2015	2014
	General fund £000	General fund £000	Rebate fund £000	Rebate fund £000	Total £000	Total £000
Other comprehensive income						
Gain on revaluation of land and buildings to fair value	See note 17	75	–	–	–	75
Total other comprehensive income		75	–	–	–	75

The accompanying notes on page 34 to 41 form an integral part of these financial statements.

Statement of financial position

For the year ended 31 December 2015

	Notes	2015	2014
Assets		£000	£000
Intangible Assets			
Software and licences	See note 12	552	316
Development costs	See note 12	–	34
Investments			
Other financial investments	See note 13	17,938	19,946
Debtors			
Debtors arising out of direct insurance operations	See note 14	8,201	8,102
Other assets			
Tangible assets	See note 15	722	640
Cash at bank and in hand		818	394
Prepayments and accrued income			
Deferred acquisition costs	See note 16	761	740
Prepayments and accrued income		288	205
Total Assets		29,280	30,377
Liabilities			
Capital and reserves			
General and rebate funds	See note 17	12,830	14,356
Revaluation reserve	See note 17	117	42
Technical provision			
Provision for unearned premiums	See note 18	11,680	11,577
Claims outstanding	See note 19	3,510	3,525
Creditors			
Other creditors (including tax and social security)	See note 20	638	483
Accruals			
		505	394
Total Liabilities		29,280	30,377

The accompanying notes on page 34 to 41 form an integral part of these financial statements. As a result of the transition to FRS 102 and FRS 103 a number of prior year balances have been reclassified. This is explained further in note 23 on page 40.

The financial statements were approved by the Board and signed on its behalf on 30 March 2016 by:



Andrew Johnston
Chairman



James Parker
Chief Executive and Secretary

Statement of cash flows

For the year ended 31 December 2015

	Notes	2015	2014
Net cash inflow from operating activities		£000	£000
Technical account deficit for the year		(1,613)	(3,298)
Non-technical income		18	
Adjustments for non-cash items			
Depreciation and amortisation	See note 7	302	242
Asset write downs	See note 7	5	76
Changes in working capital and provisions			
(Increase)/decrease in debtors		(99)	25
(Increase)/decrease in prepayments and accrued income		(104)	(6)
Increase/(decrease) in provision for unearned premiums		103	100
(Decrease)/increase in provision for claims incurred but not received		(15)	801
Increase/(decrease) in other creditors and accruals		266	170
Net cash generated from/(used in) operating activities		(1,137)	(1,890)
Cash flow from investing activities			
Purchases of intangible assets	See note 12	(427)	(225)
Purchase of tangible assets	See note 15	(89)	(20)
Interest income	See note 8	2	2
Funds withdrawn from investment funds	See note 13	2,075	2,450
Net cash generated from/(used in) investing activities		1,561	2,207
Increase in cash and cash equivalents		424	317
Cash and cash equivalents at the beginning of the year		394	77
Cash and cash equivalents at the end of the year		818	394

The accompanying notes on page 34 to 41 form an integral part of these financial statements.

Notes to the Financial Statements

1. General Information

Civil Service Healthcare Society Limited ("the Society") is a specialist provider of competitively-priced health insurance to all parts of the civil service, public sector and not-for-profit organisations. The Society is a friendly mutual society, run for the benefit of our members and is incorporated under the Friendly Societies Act 1992. The Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The address of its registered office is Princess House, Horace Road, Kingston upon Thames, Surrey KT1 2SL.

2. Statement of Compliance

The financial statements of Civil Service Healthcare Society Limited have been prepared in compliance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ("the regulations") made under the Friendly Societies Act 1992 and with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103").

3. Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements in conformity with the regulations and FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Society's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Certain assets have been reclassified during the year to reflect more appropriate presentation in the statement of financial position. The assets affected were land and buildings, software and licenses, and development costs. Comparative amounts have also been reclassified (see Note 23).

b Going concern

The financial statements have been prepared on a going concern basis as the Board believes the Society has adequate resources to continue its operational existence for the foreseeable future.

c 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.

d Claims incurred

Claims are recognised when the liability occurs, irrespective of when notified, with estimates for amounts not yet notified (see Notes 6 and 19). Claims incurred are stated exclusive of claim handling costs.

e Investment income

Investment income includes dividends and interest. Dividends are taken into account when declared. Interest on deposits is recognised on an accruals basis. Investment income is recognised in the non-technical account.

f Realised and unrealised gains and losses

Unrealised gains and losses represent the difference between the market value of investments held at the end of the year and their market value at the beginning of the year, or their cost when acquired during the year.

Realised gains and losses are calculated as the difference between purchase costs and net sales proceeds. An adjustment is made to unrealised gains and losses previously recognised for the impact of any disposals in the year.

Realised and unrealised gains and losses are recognised in the non-technical account.

g Acquisition costs

Acquisition costs are defined as arising from the creation of insurance contracts including:

- Direct costs such as 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 which are amortised over the period in which the related premiums are earned; and
- Acquisition costs relating to subsequent periods which are recognised as an asset on the balance sheet as a prepayment (Deferred Acquisition costs).

h Intangible assets

Software and licenses are stated at cost less accumulated amortisation and any impairment losses. Software and licenses are amortised over their estimated useful life, of 4 years, on a straight line basis.

The assets are reviewed for impairment if there are any factors indicating that the carrying amount may be impaired.

i Financial investments

Other financial investments are recognised at their year-end mid-market values at reporting date unless otherwise stated. Changes in fair value are recognised in the Statement of Income and Expenditure.

j Debtors

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

k Tangible assets

All property is occupied by the Society at the balance sheet date. Land and buildings are formally revalued annually and included in the accounts at valuation with any surplus or deficit being transferred to a revaluation reserve.

Depreciation is provided to write off the cost, less estimated residual value, of tangible assets by equal instalments over their estimated useful economic lives as follows:

- Computer hardware 3 years
- Office equipment 4 years
- Fixtures and fittings 5 years

Land and buildings are not depreciated.

The Society's policy is to revisit the estimated useful economic lives and estimated residual values at the end of each financial year.

l Cash and cash equivalents

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

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.

n 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 to estimate the claims outstanding provision for 2015. Any over or under provision is adjusted as part of claims incurred in the following year.

4. Critical Accounting Judgements and Estimation Uncertainty

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain accounting estimates and assumptions that affect the reported assets, liabilities, income and expenses. It also requires management to exercise judgement in applying the Society's accounting policies. The main area involving a higher degree of judgement or complexity, and where assumptions or estimates are significant to the financial statements, is set out below:

Valuation of outstanding claims liabilities

Estimates are made for the expected ultimate cost of claims reported as at the year-end date and the cost of claims incurred but not yet reported (IBNR) to the Society. It can take many months before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than provided. Standard actuarial claims projection techniques are used to estimate outstanding claims. These techniques use past patterns of delay between claims being incurred and settled, and combine them with estimates of ultimate loss ratios. Several assumptions are also inherent in the estimation techniques including assumptions relating to claims costs inflation and medical trends. Changes in the outstanding claims provision are credited or charged to gross claims within the Statement of Income and Expenditure.

5. Technical Income

	2015	2014
	£000	£000
Premiums received during the year	28,314	28,552
Change in the provision for premiums received in advance (see note 18)	25	107
	28,339	28,659
Premium rebates transferred from Rebate Fund*	2,995	3,136
Gross premiums earned	31,334	31,795

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

Notes to the Financial Statements continued...

6. Claims Incurred

	2015	2014
	£000	£000
Claims paid excluding claims handling cost	24,328	25,653
Change in the provision for claims outstanding excluding handling provisions (see note 19)	(23)	770
Gross claims incurred	24,305	26,423

7. Net Operating Expenses

	2015	2014
	£000	£000
Acquisition costs - Commission to brokers	611	630
Acquisition costs - Indirect Expenses (excluding commissions)	959	1,012
Administrative expenses	4,077	3,892
	5,647	5,534
Administrative expenses include		
Depreciation and amortisation	302	242
Asset write downs	5	76
Amounts payable by the Society to internal and external auditors		
External audit - statutory accounts	48	24
External audit - other services	17	-
Internal audit - other services	51	72
External actuary fees	101	82
Other professional services	158	122
Aggregate amount of directors' emoluments*	456	462

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

8. Investment Income

	2015	2014
	£000	£000
Income from investments at fair value through income		
Dividend income	10	8
Interest income	2	2
Total investment income	12	10

9. Unrealised Gains on Investments

	2015	2014
	£000	£000
Investments at fair value through income:		
Unrealised gains on year-end revaluation to market value	108	373

10. Employee Information

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

	2015	2014
	No.	No.
Administration	64	64
Business development	7	7
	71	71
Staff costs for the above positions were	£000	£000
Wages and salaries	2,479	2,473
Social Security costs	259	252
Pension costs	109	112
	2,847	2,837

11. Director's Emoluments

Directors' emoluments, including pension contributions, fell within the following ranges:

	2015	2014
	No.	No.
Executive		
£50,000 - £99,999	1	4
£100,000 - £149,999	1	-
£150,000 - £199,999	1	-
Total	3	4
Non-Executive		
£0 - £49,999	8	9
Total	8	9

Full details of Directors' emoluments are contained in the Report from the Board on Remuneration on page 24.

There were no other related party transactions during the year.

12. Intangible Assets

	New product Development £000	Software and licenses £000	Total £000
Cost			
At 1 January 2015	34	2,360	2,394
Additions	-	427	427
Transfers	(34)	34	-
Disposals	-	(5)	(5)
At 31 December 2015		2,816	2,816
Accumulated amortisation			
At 1 January 2015	-	(2,044)	(2,044)
Amortisation for the year	-	(220)	(220)
Disposals	-	-	-
At 31 December 2015		(2,264)	(2,264)
Net Book Value			
At 31 December 2015	-	552	552
At 31 December 2014	34	316	350

As a result of the transition to FRS 102 and FRS 103 some prior year balances have been reclassified between tangible and intangible assets. This is explained further in note 23 on page 40.

13. Other Financial Investments

	2015	2014
	£000	£000
Valuation at 1 January	19,946	22,071
Funds withdrawn	(2,075)	(2,450)
Dividends and interest reinvested	10	8
Management fees and charges	(51)	(57)
Unrealised gains on year-end revaluation (see note 9)	108	373
Valuation: at 31 December	17,938	19,946
Comprising		
Insight Liquidity Plus Fund	-	13,605
Insight Liquidity Fund	17,938	1,615
Insight LIBOR Plus Fund	-	4,726
	17,938	19,946

14. Debtors Arising out of Direct Insurance Operations

	2015	2014
	£000	£000
Arrears of members or policy holders	21	-
Unpaid premiums due on insurance contracts	8,180	8,102
	8,201	8,102

Notes to the Financial Statements

15. Tangible Assets

	Land and buildings £000	IT and office equipment £000	Furniture and fixtures £000	Total £000
Cost or Valuation:				
At 1 January 2015	525	339	367	1,231
Additions	–	78	11	89
Revaluations	75	–	–	75
Disposals	–	–	–	–
At 31 December 2015	600	417	378	1,395
Accumulated depreciation:				
At 1 January 2015	–	(317)	(274)	(591)
Depreciation for the year	–	(33)	(49)	(82)
Disposals	–	–	–	–
At 31 December 2015	–	(350)	(323)	(673)
Net Book Value:				
At 31 December 2015	600	67	55	722
At 31 December 2014	525	22	93	640

The land and buildings, which are occupied by the Society, were valued by Wallakers Commercial Chartered Surveyors as at 31 December 2015 in accordance with the Royal Institution of Chartered Surveyors' guidelines on the basis of open Market Value.

In order for these accounts to show a true and fair view, it is appropriate not to provide for depreciation on land and buildings as it is considered that their useful economic lives and residual values are such that their depreciation is immaterial.

If land and buildings had not been revalued they would have been included at their historical cost of £270,000 which was the cost at acquisition in 1992.

As a result of the transition to FRS 102 and FRS 103 some prior year balances have been reclassified between tangible and intangible assets. This is explained further in note 23 on page 40.

16. Deferred Acquisition Costs

	2015 £000	2014 £000
Acquisition costs - Direct costs - Commissions	255	254
Acquisition costs - Indirect Expenses	506	486
Total Deferred Acquisition Costs	761	740

17. Capital and Reserves

	2015 £000	2014 £000
General Fund Reserve		
At 1 January	10,036	9,924
Profit for the year allocated to the general fund	1,452	112
At 31 December	11,488	10,036
Rebate Fund Reserve *		
At 1 January	4,320	7,404
Drawdown from fund for rebates during the year	(2,995)	(3,136)
Net investment gains and charges attributable to the rebate scheme investments	17	52
At 31 December	1,342	4,320
Total Fund Reserves	12,830	14,356

* The Rebate Fund Reserve is held in respect of the assets and liabilities of the ex-funded scheme members and so is maintained in a separate account. Reserves in this fund are used to provide a rebate on eligible members' premiums.

	2015 £000	2014 £000
Revaluation Reserve		
At 1 January	42	42
Revaluation Reserve	75	–
At 31 December	117	42

A revaluation gain on land and buildings was recognised during the financial year. Refer to note 15 for further details.

18. Provision for Unearned Premiums

	2015 £000	2014 £000
Premiums received in advance *	3,500	3,475
Provision for unpaid premiums (see note 14)	8,180	8,102
Gross claims incurred	11,680	11,577

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.

19. Claims Outstanding

	2015 £000	2014 £000
Claims outstanding	3,378	3,401
Associated claims handling costs	132	124
Total provision at 31 December	3,510	3,525

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. The liability for claims outstanding is calculated on the basis of recognised actuarial methods having due regard to actuarial principles and best practice - see Note 4.

20. Other Creditors (Including Tax and Social Security)

Tax and social security payables make up the full balance of other creditors.

21. Pensions

The cost of Society contributions to the defined contribution scheme during the year was £109k (2014: £112k). There was an outstanding contribution of £10k at the year end (2014: £10k).

22. Commitments

	2015 £000	2014 £000
The Society had the following minimum lease payments under non-cancellable operating leases for each of the following periods		
Payments due		
Within one year	74	66
Between two and five years	153	3
Later than five years	–	–
	227	69

The Society had no other off-balance sheet arrangements.

Notes to the Financial Statements continued...

23. Impact of Transition to FRS 102 and FRS 103

This is the first year that the Society has presented its results under FRS 102 and FRS 103. The last financial statements under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 and FRS 103 was 1 January 2014. Set out below are the changes in accounting policies which reconcile the financial statements between UK GAAP and FRS 102 and FRS 103:

	Notes	At 1 Jan 2014			At 31 December 2014		
		As previously stated	Effect of transition	FRS102 (as restated)	As previously stated	Effect of transition	FRS102 (as restated)
Assets		£000	£000	£000	£000	£000	£000
Intangible Assets							
Software and licences	A	–	327	327	–	316	316
Development costs	B	–	52	52	–	34	34
Investments							
Freehold land and buildings	B	525	(525)	–	525	(525)	–
Other financial investments		22,071	–	22,071	19,946	–	19,946
Debtors							
Debtors arising out of direct insurance operations		8,127	–	8,127	8,102	–	8,102
Other assets							
Tangible assets	A & B	539	146	685	465	175	640
Cash at bank and in hand		77	–	77	394	–	394
Prepayments and accrued income							
Deferred acquisition costs		754	–	754	740	–	740
Prepayments and accrued income		185	–	185	205	–	205
Total Assets		32,278		32,278	30,377		30,377
Liabilities							
Capital and reserves							
General rebate funds	C	17,370	(42)	17,328	14,398	(42)	14,356
Revaluation reserve	C	–	42	42	–	42	42
Technical provision							
Provision for unearned premiums		11,478	–	11,478	11,577	–	11,577
Claims outstanding		2,724	–	2,724	3,525	–	3,525
Creditors							
Other creditors (including tax and social security)		485	–	485	483	–	483
Accruals							
		221	–	221	394	–	394
Total Liabilities		32,278		32,278	30,377		30,377

There were no changes to the Statement of Income and Expenditure.

Upon adoption of FRS 102 and FRS 103 the Society reviewed all accounting policies and the classification and presentation of all balances to ensure that they were in accordance with FRS 102 requirements. As a result of this review, the following items were reclassified:

- It was determined that software and licences and development costs which had previously been classified as Tangible Assets, would be reclassified to Intangible Assets as management believe this classification and presentation to be more appropriate following review of the individual balances.
- It was determined that land and buildings which had previously been presented under the heading of investments would be reclassified and presented as Tangible Assets. Management believe this presentation is more appropriate as the property is occupied by the Society and no investment income is derived from the property.
- The revaluation reserve has been presented separately to the General and Rebate funds.

Professional Advisers

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www.deloitte.com/uk

Actuarial Adviser

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A mutual, not for profit, health insurer specialising in the civil and public services Chairman: Andrew Johnston Chief Executive: James Parker
Civil Service Healthcare Society Limited is incorporated under the Friendly Societies Act 1992, Register number 463F. Registered Office:
Princess House, Horace Road, Kingston upon Thames, Surrey KT1 2SL. Civil Service Healthcare Society is authorised by the Prudential
Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority – Financial Services Register
number 205346. Our products are covered by the Financial Services Compensation Scheme (FSCS). Calls to CS Healthcare will be recorded
and may be monitored for training, quality assurance purposes and/or prevention and detection of crime.

www.cshealthcare.co.uk