Bupa Insurance Services Limited

Annual Report and Accounts for the financial year ended

31 December 2018

Registered Office:

1 Angel Court
London
EC2R 7HJ

Registered number: 3829851

Contents

Strategic Report

for the financial year ended 31 December 2018

The Directors present their annual report and the financial statements of Bupa Insurance Services Limited (the "Company") for the financial year ended 31 December 2018.

Principal activities

The principal activity of the Company is the provision of insurance mediation and administrative services to other companies within the Bupa Group. The Company also provides a small volume of third party administrative services for non-Bupa companies, such as services for medical benefit trust arrangements.

Key performance indicators

	2018 £'000	2017 £'000
Turnover	497,810	490,413
Profit before taxation	13,129	16,742
Net assets	108,020	98,705

Results

Turnover increased by 1.5% and profit before taxation has decreased by 21.6% from 2017 as a result of higher operating expenses invested in strengthening our information security capability and controls. The net asset position remains strong.

Future outlook

It is anticipated that market conditions will remain challenging both in the UK and globally. The Company will seek to leverage the strength of the Bupa brand, geographic coverage and healthcare expertise to drive future growth.

Principal risks and uncertainties

Both business performance and operations are subject to a number of risks and uncertainties. The Directors consider that the key risks and uncertainties centre on; the performance of the companies serviced, which are predominantly health insurers; employee retention; and information and technology management.

Performance and risk is monitored by the Board and senior management using operational, financial and other data.

Servicing Risk

The volume of services the Company provides, the ability to manage costs and generate profit, could be impacted by the market conditions that the health insurance companies it serviced are subject to. These companies predominantly provide domestic Private Medical Insurance in the UK (UK PMI) and International Private Medical Insurance (IPMI) to consumers and employees. The Company continues to monitor its revenues and costs to identify adverse trends and manage risks as effectively as possible.

Consideration has been given to the risks that Brexit raises for the insurance businesses that the Company services. The Company will be providing services to Bupa Group's new insurance entity (BGDAC), which has been set up to provide insurance cover to EEA based customers previously covered by the UK insurance entity (Bupa Insurance Limited) from 29 March 2019 on a renewals basis. Operational, commercial and legal risks associated with this transition are monitored, by the Board and senior management, both individually and collectively, and the Company has identified a range of mitigating actions to respond to the uncertainty of Brexit.

People Risk

In light of market pressures and other strategic challenges facing the Company, the Board needs to ensure that the right people are in place to move the Company forward. The Board views the development and training of employees and the recruitment of experienced individuals from outside the Company as central to the organisation's future success. The Company has sound selection, evaluation and reward processes to recruit, recognise and motivate talented individuals.

Information Security and Technology Risk

Information security risks, including those associated with non-compliance with data protection, privacy and information governance requirements remain key risks for the Company. There are extensive programmes of work across the Company to ensure that controls are in place and strengthened where necessary to address these risks, including enhancing our event monitoring and incident management.

The services provided by the Company are underpinned by information technology systems and infrastructure that enable the delivery of core processes. Failure of these systems may reduce the ability of the Company to deliver services for the health insurance companies it services or increase the risk of information security breaches.

Strategic Report (continued)
for the financial year ended 31 December 2018

Principal risks and uncertainties (continued)

The Company is responsible for the development, maintenance and monitoring of its IT services. A programme of work is in place to ensure the continued development and enhancement of all IT services to provide the levels of service required by the health insurance companies it services and adequately protect sensitive customer and business data.

The number of change programmes underway including; to enhance information security and governance; and responding to the UK's decision to leave the EU. This introduces risks in relation to the capacity and capability of staff and senior management to continue to deliver the Companies strategic objectives and the change programmes. The Company is focused on ensuring it has the right levels and amount of experience and succession plans to manage the business and deliver on change management, supported by a simple more automated operating model and enhanced ways of delivering training.

Regulatory Risk
The Company seeks to comply with all regulatory standards and to maintain awareness of, and where possible, anticipate regulatory change. Its principal financial regulator is the Financial Conduct Authority (FCA), with which the Board and senior managers maintain a close supervisory relationship. The Company seeks to mitigate the risk that it may fail to meet regulatory requirements through the effective operation of the governance framework, and in particular the three lines of defence model which helps to ensure the identification and management of all relevant requirements and associated risks.

Operational Risk
The Company has detailed Business Continuity Plans with dedicated specialised resource in place to ensure appropriate operation of key processes and controls. Business continuity issues are reported to the Executive Risk Committee, with significant issues being escalated to the Company's Risk Committee, which is responsible for ensuring appropriate controls are in place to mitigate potential risks.

Credit Risk
Credit risk is the risk that the Company will suffer a financial loss as a result of a counterparty failing to meet all or part of their contractual obligations. The Company pays claims only once it has received the premiums and revenues

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5 March 2019

F Harris

Director

Directors' Report
for the financial year ended 31 December 2018

Results and dividends
The profit for the year, after taxation, amounted to £9,315k (2017: £13,302k). The Company did not pay a dividend during the year ended 31 December 2018.

Solvency requirement
As an intermediary regulated by the FCA, the Company is required to maintain solvency capital of £1.9m (2017: £1.8m). At 31 December 2018, £44.5m (2017: £23.5m) of capital was held in surplus.

Impact of Companies (Audit, Investigations and Community Enterprise) Act 2004
As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company.

Directors
Details of the present Directors and any other persons who served as a Director during the financial year are set out below:

F Harris	
S Kenton	
M C Ledlie	
S J O'Connor	
A P Perry	
R A Phipps (Chairman)	
D W Smith	
C E Thompson	
A Morrison (Company Secretary)	(resigned 31 May 2018)
Bupa Secretaries Limited (Company Secretary)	(appointed 25 June 2018)

Employees

Details of the number of persons employed and gross remuneration are contained in note 4 to the financial statements.

Every effort is made by the Directors and management to inform, consult and encourage the full involvement of staff on matters concerning them as employees and affecting the Company's performance.

Employment of disabled persons

The Company is committed to providing equal opportunities to employees. The employment of disabled persons is included in this commitment and the recruitment, training, career development; and promotion of disabled persons is based on the aptitudes and abilities of the individual. Should employees become disabled during employment, every effort would be made to continue their employment and, if necessary, appropriate training would be provided.

Employment policy

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance through management channels. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance.

The Bupa People Manager Expectations, clearly sets out management expectations, including the need to listen to employees needs and issues. People Pulse provides the opportunity for all employees to raise their views anonymously. The approach to managing performance includes setting performance expectations. Schemes exist to incentivise, recognise and reward performance.

Directors' Report (continued)

for the financial year ended 31 December 2018

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that:

- So far as that each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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5 March 2019

F Harris

Director

Statement of Directors' Responsibilities

for the year ended 31 December 2018

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- asses the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Bupa Insurance Services Limited

Opinion

We have audited the financial statements of Bupa Insurance Services Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Directors, such as the ability for the Company to continue to provide services to other group companies through the freedom of services and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Strategic report and directors' report

The Directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the Members of Bupa Insurance Services Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

5 March 2019

Statement of Profit and Loss Account and Other Comprehensive Income
for the financial year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	3	**497,810**	490,413
Net operating expenses	4	**(483,990)**	(471,788)
Profit before financial income and expense		**13,820**	18,625
Financial income and expenses			
Interest receivable and similar income	5	**547**	435
Interest payable and similar charges	6	**(1,238)**	(2,318)
		(691)	(1,883)
Profit on ordinary activities before taxation		**13,129**	16,742
Taxation on profit on ordinary activities	8	**(3,814)**	(3,440)
Profit for the financial year		**9,315**	13,302
Total comprehensive income for the year		**9,315**	13,302

All profits are derived from continuing operations.

There were no material differences between reported profit and losses and historical profit and losses on ordinary activities before and after taxation.

Notes 1-20 form part of these financial statements.

Balance Sheet

for the financial year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	9	**6,859**	337
Intangible assets	10	**52,247**	60,055
Total fixed assets		**59,106**	60,392
Current assets			
Debtors: Amounts falling due within one year	11	**238,300**	224,449
Deferred taxation assets	12	**11,460**	12,872
Cash and cash equivalents	13	**76,927**	98,354
Total current assets		**326,687**	335,675
Current liabilities			
Creditors: Amounts falling due within one year	14	**(272,964)**	(295,036)
Total current liabilities		**(272,964)**	(295,036)
Net current assets		**53,723**	40,639
Total assets less current liabilities		**112,829**	101,031
Provision for liabilities	16	**(4,809)**	(2,326)
Net assets		**108,020**	98,705
Shareholder funds			
Called up share capital	17	**13,000**	13,000
Profit and loss account		**95,020**	85,705
Shareholder funds		**108,020**	98,705

Notes 1-20 form part of these financial statements.

These financial statements were approved by the Board of Directors on 5 March 2019 and were signed on its behalf by:

F Harris

Director

CE Thompson

Director

Statement of Changes in Equity

for the financial year ended 31 December 2018

	Called up share capital	Profit and loss account £'000	Total equity £'000
Balance as at 1 January 2018	13,000	85,705	**98,705**
Profit of the year	-	9,315	**9,315**
Balance as at 31 December 2018	**13,000**	**95,020**	**108,020**

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balance as at 1 January 2017	13,000	97,403	110,403
Profit of the year	-	13,302	13,302
Transactions with owners recorded directly in equity			
Dividends paid	-	(25,000)	(25,000)
Balance as at 31 December 2017	13,000	85,705	98,705

Notes 1-20 form part of these financial statements.

Notes to the Financial Statements
for the financial year ended 31 December 2018

The principal accounting policies are summarised below. They have been applied consistently throughout the financial year.

1. Basis of Preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") under the historical cost convention.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As the Company is a wholly owned subsidiary undertaking of The British United Provident Association Limited (Bupa), a company registered in England and Wales, which publishes consolidated accounts, the Company has not included details of transactions with other Bupa Group companies which are subsidiary undertakings of Bupa.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Related party transactions with fellow Bupa Group companies;
- Disclosures in respect of the compensation of key management personnel;
- Comparative period reconciliations for tangible and intangible fixed assets; and
- Disclosures in respect of the requirements of IFRS 7 Financial Instruments: Disclosures.

The financial statements are presented in sterling, which is also the Company's functional currency, rounded to thousands.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(a) Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

IFRS 15

The Company has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018. The Company has applied IFRS 15 retrospectively with the cumulative effect of initially applying IFRS 15 recognised as an adjustment to the opening balance of retained earnings at the date of initial application of 1 January 2018. Under this approach, comparative information is not restated and continues to be reported under IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles that an entity can apply to report information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer and is based on the principle that revenue is recognised when control of a good or service transfers to a customer. It replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate and IFRIC 18 Transfers of Assets from Customers.

The application of IFRS 15 has not resulted in any changes in revenue recognition, as customer contract transaction prices tend to be fixed, rather than variable, with separate pricing for distinct performance obligations and settlement in the short term. Whilst an element of revenue relates to a profit sharing arrangement, which is potentially variable during an annual reporting period, there is no uncertainty at the reporting date as the price is fixed at the period end.

IFRS 9

The Bupa Group has adopted IFRS 9 Financial Instruments with a date of initial application of 1 January 2018. The Company did not early adopt any of IFRS 9 in previous periods.

The Company has applied IFRS 9 retrospectively with the cumulative effect of initially applying IFRS 9 recognised as an adjustment to the opening balance of retained earnings at the date of initial application of 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 Financial Instruments addresses the classification, measurement, recognition and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The application of IFRS 9 has not resulted in any changes in classification or measurement of the company's financial assets and liabilities.

(b) Going concern

The Directors have conducted an assessment of the Company's going concern status based on its current position and forecast results. After making suitable enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Strategic Report, Directors' Report and Financial Statements.

(c) Turnover

Turnover represents the total amount earned by the Company in the ordinary course of business.

Turnover consists of the following revenue streams:

- Income receivable from Bupa Group companies represents amounts earned for the provision of insurance mediation and administrative services. This includes an element relating to a profit share arrangement where variable consideration is recognised to the extent it is highly probable that a significant revenue reversal will not subsequently occur. At each annual reporting period end, there is certainty that reversal will not subsequently occur.

- Revenue represents an administrative fee which relates to the Health Trust business for administrating trusts set up to provide Healthcare funding to specific beneficiaries, usually employees, and is recognised as the performance obligation is satisfied.

- Other income represents recharges to non-insurance Bupa Group companies for services provided and is recognised as the performance obligation is satisfied.

(d) Foreign currencies

Transactions in foreign currencies other than the functional currency of the Company are translated to the respective functional currency of the Company or its foreign operations. Realised exchange differences arising on transactions of foreign currency amounts are recorded in the Profit and Loss account.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the balance sheet date; the resulting foreign exchange gain or loss is recognised in operating expenses, except where the gain or loss arises on financial assets or liabilities and then it is presented in financial income or expense as appropriate. Non-monetary assets and liabilities denominated in a foreign currency at historic cost are translated using the exchange rate at the date of the transaction; no exchange differences therefore arise. Non-monetary assets and liabilities denominated in a foreign currency at fair value are translated using the exchange rate ruling at the date that the fair value was determined.

(e) Financial income and expenses

Financial income comprises interest receivable, recognised in the Profit and Loss account as it accrues.

Financial expense includes interest payable on borrowings, recognised in the Profit and Loss account as it accrues.

Gains and losses on the translation of monetary assets and liabilities denominated in foreign currencies are recognised as financial income or expense as appropriate.

(f) Current and deferred taxation

The charge for taxation is based on the result for the financial year and takes into account deferred taxation.

Current taxation is the expected taxation payable on the taxable profit for the year, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustments to taxation payable in respect of previous years.

Deferred taxation is provided in full on all temporary differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive taxation benefits, with the following exceptions:

- Provision is made for taxation on gains arising from the fair value adjustment of fixed assets or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned and without it being possible to claim rollover relief. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to taxation only where the replacement assets are sold.

- Deferred taxation assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on current taxation rates and laws.

Trading losses surrendered to other Bupa Group subsidiary undertakings are made on a full payment basis.

(g) Tangible fixed assets and depreciation

Fixtures and equipment are stated at historical cost less accumulated depreciation and recognised impairment losses. Depreciation on property, plant and equipment is calculated using the straight-line method to allocated cost less residual value over estimated useful lives as follows:

Depreciation is charged to the profit and loss on a straight-line basis over its expected useful life, as follows:

Computer Equipment	3 Years
Fixtures & Fittings	3 to 8 Years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

No depreciation is charged on assets in the course of construction. Assets classified as work in progress are reviewed for impairment at each balance sheet date or when an indication of impairment arises.

Impairment reviews are undertaken where there are indicators that the carrying value may not be recoverable. An impairment loss on assets carried at cost is recognised in the Profit and Loss account to reduce the carrying value to the recoverable amount.

(h) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and recognised impairment losses. Amortisation is charged to the Profit and Loss account on a straight-line basis over its expected useful life, as follows:

Computer Software	3 to 7 Years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

Impairment reviews are undertaken at each Balance Sheet date where there are indicators that the carrying value may not be recoverable. An impairment loss on assets carried at cost is recognised in the Profit and Loss account to reduce the carrying value to the recoverable amount.

(i) Debtors

Debtors, are carried at amortised cost less provisions for expected credit losses.

Provision for expected credit losses for non-insurance debtors are measured at lifetime Expected Credit Loss (ECL). Where appropriate, a provision matrix is used to estimate ECL. Under a provision matrix, receivables are grouped into customer segments and further divided into categories by age. Historical credit loss experience and any relevant forward-looking information is then used to establish the ECL provision for each category. The ECL provision at 31 December 2018 has been assessed as £2,024k.

(j) Creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

(k) Provisions for liabilities

A provision is recognised in the Balance Sheet when the Company has a present, legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and can be reliably measured. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Although provisions are made where payments can be reliably estimated, the amounts provided are based upon a number of assumptions that are inherently uncertain and therefore the amount that is ultimately paid could differ from the amount recorded.

(l) Pensions

Defined benefit pension schemes

The ultimate parent company, Bupa, operates a Group defined benefit pension scheme, The Bupa Pension Scheme, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of Bupa in independently administered funds.

The Company participates in The Bupa Pension Scheme. As no agreement exists to allocate pension scheme assets and liabilities between Bupa Group companies, IAS 19: Employee Benefits permits those Bupa Group companies to account for their pension costs as if the Company participates in a defined contribution pension scheme. Therefore, the cost of the pension contributions made to the scheme are recognised within the Profit and Loss account.

Defined contribution pension schemes

Bupa also operates a defined contribution pension scheme, The Bupa Retirement Savings Plan, in which the Company participates. The assets of the scheme are held separately from those of the Company in independently administered funds. This scheme was opened with effect from 1 October 2002 and is available to join on a voluntary basis to permanent employees of Bupa.

Contributions to defined contribution pension schemes are recognised as an expense in the Profit and Loss account as incurred.

The National Employment Savings Trust (NEST) has been used to meet the Company's automatic enrolment duties for UK employees.

2. Immediate and ultimate parent company

The immediate parent undertaking of the Company is Bupa Finance plc, a company incorporated in England and Wales, the registered office of which is, 1 Angel Court, London, EC2R 7HJ.

The ultimate parent undertaking of the Company, and the largest group into which these financial statements are consolidated, is Bupa, a company incorporated in England and Wales, registered office is, 1 Angel Court, London, EC2R 7HJ. The consolidated financial statements of Bupa are prepared in accordance with International Financial Reporting Standards as adopted in the EU and are available to the public. The smallest group into which these financial statements are consolidated is that headed by Bupa Finance plc.

Copies of the accounts of both companies can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ.

3. Turnover

	2018 £'000	2017 £'000
Income received from Bupa Group companies	**478,868**	469,403
Revenue from administrative services	**18,942**	20,820
Other income	**-**	190
	497,810	490,413

All turnover is generated through the provision of administrative services carried out in the UK.

4. Net operating expenses

	2018 £'000	2017 £'000
Staff costs[1]	**157,124**	101,335
Recharges from Bupa Group companies	**137,233**	164,502
Marketing	**6,977**	6,711
Commissions payable	**148**	297
Depreciation of tangible assets - owned	**203**	172
Amortisation of intangible assets	**19,756**	19,891
Impairment of intangible assets	**-**	4,981
Net (gain) / loss on foreign exchange transactions	**(4,666)**	63
Other operating expenses	**167,215**	173,836
	483,990	471,788

Staff costs:

The average monthly number of employees during the year analysed by category was as follows

	2018	2017
Administration	**2,716**	2,497
Sales	**548**	711
	3,264	3,208

A number of members of staff of the Company also work for other Bupa Group companies as part of their role.

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	**136,869**	85,341
Social security costs	**11,571**	8,243
Pension costs	**8,684**	7,751
	157,124	101,335

[1]Staff costs of £40,555k were included within recharges from Bupa Group companies in 2017

Directors' remuneration

The Directors split their time between the Company and Bupa Insurance Limited. Therefore, emoluments are disclosed in both companies.

	2018 £'000	2017 £'000
Emoluments	**373**	281
Company contributions to defined contribution pension schemes	**3**	3
Amounts receivable under long-term incentive schemes	**17**	21
	393	305

The emoluments of the Directors are borne entirely by other Bupa Group companies. The table above reflects the value of the qualifying services provided by the Directors to the Company during the year.

There are no Directors who are a member of a Bupa defined benefit pension scheme (2017: One).

The remuneration of the highest paid Director was:

	2018 £'000	2017 £'000
Emoluments	**122**	75
Company contributions to defined contribution pension schemes	**2**	2
Amounts receivable under long-term incentive schemes	**9**	6
	132	83

5. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from Bupa Group undertakings	**32**	125
Other interest receivable	**90**	310
Net gains on foreign exchange transactions	**425**	-
Total interest receivable and similar income	**547**	435

6. Interest payable and similar charges

	2018 £'000	2017 £'000
Interest payable to Bupa Group undertakings	**1,238**	151
Other interest payable	**-**	7
Net losses on foreign exchange translations	**-**	2,160
Total interest payable and similar charges	**1,238**	2,318

7. Auditor's remuneration

Profit on ordinary activities before taxation is stated after charging

	2018 £'000	2017 £'000
Fees payable to the Company's auditors	140	113

Fees payable to the Company's auditors represent the amount for the audit of the Company's annual accounts.

8. Taxation on profit on ordinary activities

Analysis of taxation charge in the financial year.

	2018 £'000	2017 £'000
Current tax		
UK corporation taxation on profit for the financial year	**2,393**	2,761
Adjustments in respect of prior periods:		
UK corporation tax	**9**	513
Foreign tax adjustments	**-**	176
Total current taxation	**2,402**	3,450
Deferred tax		
Origination and reversal of temporary differences	**1,417**	595
Changes in taxation rate	**(166)**	-
Adjustments in respect of prior periods	**161**	(605)
Total deferred taxation	**1,412**	(10)
Total taxation expense	**3,814**	3,440

The UK tax rate will reduce to 17% in April 2020.

The differences between the total taxation expense shown above and the amount calculated by applying the standard rate of UK corporation taxation to the profit before taxation is as follows:

	2018 £'000	2017 £'000
Profit before taxation expense	**13,129**	16,742
Taxation on profit on ordinary activities at standard UK corporation taxation rate of 19% (2018: 19.25%)	**2,495**	3,223
Effects of:		
Non-deductible expenses	**1,315**	392
Non-assessable income	**-**	(4)
Current income taxation adjustments in respect of prior periods	**9**	513
Deferred taxation adjustments in respect of prior periods	**161**	(605)
Changes in tax rates	**(166)**	(79)
Total taxation expense for the financial year	**3,814**	3,440

9. Tangible assets

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation			
At 1 January 2018	6,402	6,861	**13,263**
Additions	2,738	4,737	**7,475**
Disposals	(2,826)	(3,834)	**(6,660)**
At 31 December 2018	**6,314**	**7,764**	**14,078**

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Depreciation			
At beginning of period	(6,213)	(6,713)	**(12,926)**
Disposals	2,826	3,834	**6,660**
Charge for the year	(548)	(405)	**(953)**
At 31 December 2018	**(3,935)**	**(3,284)**	**(7,219)**
Net book value at end of year	**2,379**	**4,480**	**6,859**
Net book value at beginning of year	**189**	**148**	**337**

10. Intangible assets

	Computer Software £'000	Computer Software - Work in Progress £'000	Total £'000
Cost or valuation			
At beginning of period	377,239	21,663	**398,902**
Additions	294	11,654	**11,948**
Disposals	(42,702)	-	**(42,702)**
Reclassifications	7,862	(7,862)	-
At 31 December 2018	**342,693**	**25,455**	**368,148**

	Computer Software £'000	Computer Software - Work in Progress £'000	Total £'000
Amortisation			
At beginning of period	(330,001)	(8,846)	**(338,847)**
Disposals	42,702	-	**42,702**
Charge for year	(19,756)	-	**(19,756)**
At 31 December 2018	**(307,055)**	**(8,846)**	**(315,901)**
Net book value at end of year	**35,638**	**16,609**	**52,247**
Net book value at beginning of year	**47,238**	**12,817**	**60,055**

Following a review of the intangible assets during the year no impairment loss has been recognised in the Profit and Loss account in 2018 (2017: £5.0m).

11. Debtors: Amounts falling due within one year

	2018 £'000	2017 £'000
Amounts owed by Bupa Group undertakings	**223,862**	211,202
Prepayments and accrued income	**3,038**	996
Trade debtors	**1,086**	869
Other debtors	**10,314**	11,382
	238,300	224,449

Trade and other debtors are carried at amortised cost net of provisions for expected credit losses impairment losses. All Trade debtors are classified as receivables under IFRS 15, as a receivable is an entity's right to consideration that is unconditional i.e. only the passage of time is required before payment is due.

12. Deferred taxation asset

Net deferred taxation asset is analysed as follows:

	2018 £'000	2017 £'000
Accelerated capital allowances	**10,816**	12,182
Other employee benefits (other than post-employment)	**690**	415
Provisions	**(46)**	275
	11,460	12,872

	2018 £'000	2017 £'000
At the beginning of the financial year	**12,872**	12,862
Deferred taxation charge for the financial year	**(1,412)**	10
	11,460	12,872

13. Cash & cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	**13,473**	66,362
Restricted access deposits	**63,454**	31,992
	76,927	98,354

The restricted access deposits of £63,454k (2017: £31,992k) relate to claims funds held on behalf of Health Trust customers. These amounts may be used only to discharge those obligations and potential liabilities if and when they crystallise.

Notes to the Financial Statements (continued)

for the financial year ended 31 December 2018

14. Creditors: Amounts falling due within one year

	2018 **£'000**	2017 £'000
Amounts owed to Bupa Group undertakings	**102,658**	163,278
Accruals and deferred income	**37,926**	23,112
Trade creditors	**54,460**	40,681
PAYE and National Insurance	**9,050**	12,936
Other creditors	**68,870**	55,029
	272,964	295,036

15. Loans from Bupa Group companies

The Company has a loan facility of up to £700.0m from Bupa Investments Limited. The facility is repayable on demand and will be terminated on 28 August 2019. Interest is payable at a margin of 100 basis points over the six-month LIBOR rate. The facility was undrawn at 31 December 2018.

16. Provisions for liabilities

	2018 **£'000**	2017 £'000
At beginning of year	2,326	2,029
Provisions made during the year	3,368	1,054
Utilisation of provision	-	(757)
Released in the year	(885)	-
Ending Balance	**4,809**	2,326

Provisions primarily consist of £3,109k (2017: £1,351k) customer remediation administration provisions relating to the costs of administering compensation to customers associated with a failure to comply with regulations or to treat customers fairly. In addition, £1,700k relates to a provision for a recoverable in the Company's capacity as a service provider.

17. Called up share capital

	2018 **£'000**	2017 £'000
Allotted, called up and fully paid		
13,000,000 ordinary shares of £1 each	**13,000**	13,000

All shares are classified as equity.

18. Contingent liabilities, guarantees and other financial commitments

Contingent Liabilities

Under a Bupa Group registration, the Company is jointly and severally liable for Value Added Taxation (VAT) due by certain other Bupa Group Companies.

19. Operating lease commitments

The total value of future non-cancellable operating lease rentals is payable as follows:

	2018 **£'000**	2017 £'000
Less than 1 year	**3,784**	6,117
Between 1 and 5 years	**12,118**	18,208
More than 5 years	**15,497**	8,452
Total operating leases	**31,399**	**32,777**

The Company leases several properties. Operating lease payments are reviewed regularly in accordance with the terms and conditions of the individual agreements. The leases do not include contingent rentals.

The total lease expense recognised within operating expenses is £12.4m (2017: £15.1m)

20. Pensions

Defined benefit pension schemes:

The Bupa Group operates defined benefit and defined contribution pension schemes for the benefit of employees. The Bupa Pension Scheme is the principal defined benefit pension scheme which provides benefits based on final pensionable salary. Charges made to the Profit and Loss Account of Bupa comprise; the current service cost; net interest; and gains and losses on curtailments.

The Bupa Pension Scheme was closed to new entrants from 1 October 2002. Under this scheme, contributions by employees and the Bupa Group are administered by trustees in funds independent of the Bupa Group. The scheme is funded to cover future pension liabilities allowing for future earnings and pension increases.

An independent actuary performs triennial valuations together with periodic interim reviews. Both triennial and interim valuations use the attained age method, recognising the closure of the scheme to new entrants.

The Bupa Pension Scheme was valued as at 31 December 2018 under International Financial Reporting Standards. This valuation showed a surplus before deferred tax of £598.8m (2017: £572.6m) with assets of £2,068.5m (2017: £2,157.5m) and liabilities of £1,469.7m (2017: £1,584.9m)

There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19, the Company recognises a cost equal to its contribution payable for the period, which in the year ended 31 December 2018 was £3.0m (2017: £2.1m).

Details of the latest valuations of the scheme and main assumptions are included in the annual report and accounts of the ultimate holding company, Bupa.

At the most recent triennial valuation, as at 1 July 2017 the scheme's independent actuary recommended payment of employer contributions at the rate of 33.8%. In addition to these employer contributions a payment equivalent to the employee contribution of 7% of pensionable salaries is paid as part of the Bupa Group's salary sacrifice arrangement (known as PeopleChoice Pensions). There is a corresponding reduction in members' wages and salaries as a result.

The full disclosure requirements under IAS 19 are disclosed in the Annual Report and Accounts of Bupa.