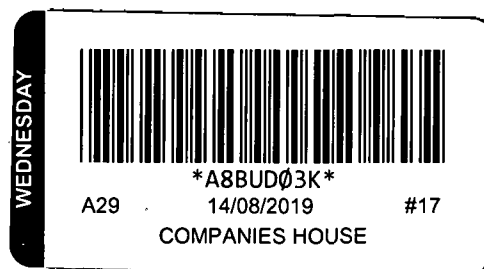


**PAYCARE
FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018**

Company Registration Number: 00820791



**EDWARDS
CHARTERED ACCOUNTANTS**

PAYCARE

FINANCIAL STATEMENTS YEAR ENDED 31ST DECEMBER 2018

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PAYCARE**STATUTORY INFORMATION**

| | |
|----------------------------------|---|
| Patron | H M Lord Lieutenant for Staffordshire |
| President | M Murray |
| Vice President | E Reay P Stokes |
| Chairman | D A Whitmore (Non-executive director) |
| Directors – non-executive | D McIntosh J L Knight (Independent) J Gobran (Independent) |
| Directors - executive | K A Rogers ACMA, CGMA A Burns |
| Chief Executive | K A Rogers ACMA, CGMA |
| Company Secretary | K A Rogers ACMA, CGMA |
| Auditors | Edwards Chartered Accountants |
| Solicitors | FBC Manby Bowdler LLP |
| Solvency II Advisors | Moore Stephens LLP |
| Actuarial Advisor | Steve Dixon Associates |
| Investment Managers | Royal London Asset Management (RLAM) |
| Pensions Advisers | Alexander House Financial Services Ltd |
| Company Number | 00820791 |
| Registered Office | Paycare House George Street Wolverhampton WV2 4DX Telephone: 01902 371000 |
| Website | www.paycare.org |
| E-mail | enquiries@paycare.org |

PAYCARE**STRATEGIC REPORT TO THE MEMBERS OF PAYCARE**

The directors present their strategic report for the year ended 31 December 2018.

Principal activity and review of the business**Principal activity**

The principal activity of the company is the provision of healthcare cash benefit insurance plans.

Income

The total income of the company, including unrealised losses on investments, was £6,537,296 (2017 - £6,526,378) an increase of 0.2% over the preceding year (2017 – 0.1% decrease). Premium income increased by 4.0% (2017 - decrease 1.7%).

We continue to see an increase in our company paid policies; we also see the continuing trend of decreases in individual policies. This reflects the trend in our industry. The consequence of this movement is a reduction in the average premium income we receive per policyholder.

We continued to absorb increases in insurance premium tax (IPT) in the first half of 2018. We are aware of the fiscal pressures on our policyholders and the many hundreds of businesses that are our customers. This had a negative effect on the operating profit for the year. We continue to lobby Government through our trade body The Association of Financial Mutuals for IPT on Health Cash Plans to be exempt.

Benefits

Benefits paid during the year to 84,452 claimants (2017 – 84,913) amounted to £5,177,182 (2017 - £5,156,889) an increase of 0.4% over the preceding year (2017 – 1.0% decrease). As a percentage of premium income, the value of claims paid was 78.7% (2017 – 81.5%).

Administration

Operating costs at £1,588,938 (2017 - £1,560,937) represented a 1.8% increase (2017 – 10.0% increase) over the preceding year and accounted for 24.1% of premium income (2017 – 24.7%).

Reserves

The reserves of the company decreased to £5,786,495 (2017 – decreased to £6,043,632) representing 87.9% of premium income (2017 – 95.5%). The deficit on unrealised reserves at the year end amounted to £83,282 (2017 – surplus of £128,145).

The company is required by the Financial Services and Markets Act 2000 to maintain a minimum margin of solvency. The aggregate value of assets is well in excess of the minimum required by the Act.

PAYCARE**STRATEGIC REPORT TO THE MEMBERS OF PAYCARE**

Future Developments

The company continues to develop and monitor its product range to take account of the changing needs of customers. The company will always ensure that it acts in the best interests of its policyholders and employees.

Governance, principal risks and uncertainties**Corporate governance review**

The board recognises the importance of good corporate practice and is committed to conducting the company's operations in accordance with the best principles of corporate governance. In so far as it can be applied practically given the size of Paycare and the nature of its operations it aims to adhere to the principles and provisions of the Combined Code on Corporate Governance annotated by the Association of Financial Mutuals.

On 10 December 2018 The Senior Insurance Managers Regime was replaced by the full Senior Managers and Certification Regime (SM&CR). The board undertook extensive work to ensure full compliance with the new regime. Two new committees were established,

- Nominations committee
- Remuneration committee

Each committee has clearly defined statements of responsibilities and prescribed responsibilities assigned to individual members.

The board consists of two executive and four non-executive directors. The board undertook a full skills gap analysis in 2018 and as a result the board will be increased up to its maximum permitted level in 2019 after a successful recruitment process.

The current chair of Paycare does not meet the independence criteria as defined in B.1.1 of the annotated code. This has historically been necessary due to the difficulty in recruiting new non-executive directors. An election for a new chair will be undertaken in April 2019 and the chair will fulfil the independence criteria.

The board meets regularly and is responsible for company strategy, management and direction. The non-executive directors provide challenge and advice and oversee the performance of the business. A governance officer was recruited internally in 2018 to ensure that board complies with its terms of reference.

The board has overall responsibility for the company's systems of internal control which are designed to manage rather than eliminate the risk of failing to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against material misstatement or loss. The board has reviewed the operation and effectiveness of their internal control systems for the financial year and considers them to be operating effectively.

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Corporate governance review (continued)

The key feature of the company's system of internal control is the operation of a detailed and comprehensive budgetary process whereby annual budgets and business plans are approved by the board and furthermore are regularly considered in light of actual results.

The board is the governing body of the organisation and establishes monitors and controls a framework of prudential controls to advance the company in its objectives. Decision making is driven by the executive and senior management and is robustly challenged by the non-executives to gain consensus with the board.

Matters that are specifically reserved for the board are:

- Appointment of voting members
- Terms and conditions of executive directors
- Terms of reference and membership of board committees
- Board appointments and removals

The chair conducts an annual appraisal of each board member. This is reported through to the full board and areas of improvement, training needs, skills gap are identified and actioned.

The senior independent director undertakes an annual appraisal of the chair. This involves interviews taking place with all board members to evaluate the performance of the chair. This is reported through to the full board and areas of improvement, training needs and skills gaps are identified and actioned.

Capital management

The objective of the company in managing its capital is to ensure that it will be able to continue as a going concern and comply with the regulators' capital requirements of the markets in which the company operates.

The company was in compliance with capital requirements imposed by regulators throughout the financial year.

Financial risk management

In order to fulfil their responsibilities, the directors have implemented an ongoing process for identifying, evaluating and managing the significant risks faced by the company. As part of this process, the audit and risk committee and senior management meet together at least once each year to re-assess the areas of risk that are significant to the achievement of business objectives, as defined by the board in setting strategic direction. The senior management team are responsible for ensuring that the system of internal control manages these areas of risk appropriately and that its effectiveness is adequately monitored and include their findings in regular reports to the directors.

PAYCARE**STRATEGIC REPORT TO THE MEMBERS OF PAYCARE**

Financial risk management (continued)

The audit and risk committee chaired by D McIntosh meet a minimum of three times each year to assess and discuss risks.

The company monitors and manages the financial risks relating to the operations of the company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the company in managing its market risk is to ensure risk is managed in line with the company's risk appetite.

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the company. The key areas of exposure to credit risk for the company are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries. The objective of the company in managing its credit risk is to ensure risk is managed in line with the company's risk appetite. The company has established policies and procedures in order to manage credit risk and methods to measure it. There were no changes in the company's credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

Liquidity risk is the risk that the company cannot meet its obligations associated with financial liabilities as they fall due. The company has adopted an appropriate liquidity risk management framework for the management of the company's liquidity requirements. The company manages liquidity risk by maintaining banking facilities and investments by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The company is exposed to liquidity risk arising from policyholders on its insurance contracts. Liquidity management ensures that the company has sufficient access to funds necessary to cover insurance claims. In practice, most of the company's assets are marketable securities which could be converted in to cash when required. There were no changes in the company's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

Insurance risk management

The company accepts insurance risk through its insurance contracts where it assumes the risk of loss from policyholders that are directly subject to the underlying loss. The company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts. Losses are however limited to a claim period after pecuniary loss to the policyholder of 13 weeks. The company manages its risk via its underwriting strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience.

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Regulation

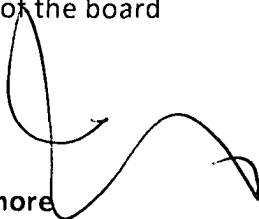
The burden of regulation for healthcare cash benefit plans has continued. In order to maintain compliance, during 2018 Directors and Managers took part in a range of training activities covering regulatory issues and have continued to review and enhance internal systems and procedures.

Paycare is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Paycare continue work to enhance processes and systems in conjunction with our actuaries, software providers and investment managers to ensure compliance under the Solvency II regime. The costs associated with compliance to the Solvency II regime continue to escalate. The directors are concerned that regulators have not yet demonstrated sufficient proportionality in the administration of the Solvency II regime to businesses of our nature and complexity.

The directors continue to be satisfied that the company is well-placed to meet all present and future regulatory requirements.

On behalf of the board

A handwritten signature in black ink, appearing to be 'D A Whitmore', written over the printed name.

D A Whitmore
Chairman

7 March 2019

PAYCARE

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

The directors have pleasure in submitting their fifty fifth annual report together with the audited financial statements for the year ended 31st December 2018.

The company operates healthcare cash benefit plans by means of a mutual contributory scheme. Paycare is an insurance company approved and authorised by the Prudential Regulatory Authority and regulated by the Prudential Regulatory Authority and the Financial Conduct Authority.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless the directors are satisfied that they give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period. In preparing these financial statements, the directors are required to:

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

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

The directors are responsible for ensuring that the strategic report and the directors' report and other information included in the annual report is prepared in accordance with Company Law in the United Kingdom.

PAYCARE

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

Directors' and Officers' Liability

During the year, the company maintained insurance cover for the directors and officers against liability incurred whilst acting in their capacity as directors and officers of the company.

President

The directors wish to record their gratitude for the support of the President, Matt Murray.

Vice President

The directors wish to record their gratitude for the support of the Vice Presidents, Mrs Eileen Reay and Mrs Pat Stokes.

Board of directors

Seven meetings of the board of directors were held during 2018 (2017 – Six). Average attendance at board meetings for the year was 88% (2017 – 88%).

Constitution

The company is limited by guarantee and has no share capital. In the event of a winding up, each member undertakes to contribute to the assets of the company for the payment of liabilities such amount as may be required not exceeding £1.

Charitable and political donations

During the year charitable donations of £37,158 (2017 - £66,979) were made by the company. Paycare is very much part of our local community. We look to support charitable causes within our community whenever we are able too.

2018 was our third year of a 3-year agreement as one of the founder patrons of The Way youth zone in our city. These facilities cater for the needs of young people in Wolverhampton and have over 3,000 members signed up with 200-250 attending per day. A total of over 55,000 visits to the facility were made in the year. The facility is making a positive contribution the lives of the young people in our city.

We continue to extend our charitable giving to the Rachael Heyhoe-Flint Accessible lounge at Wolves. Our support of this fantastic facility through the Wolves Community Trust will now extend to 20 years.

In 2017 we welcomed Sickle Cell Thalassaemia charity to use spare office space we had in our building. This space is rent free and has helped the charity save significant funds in rent that they were able to redirect to their frontline services. We are delighted to report that this initiative has now been extended to three other organisations. The notional rent cost to the business is £30,000. We shall continue to promote this initiative to other charitable and third sector organisations. We would urge all businesses to consider this initiative as an alternative method of charitable giving.

The company makes no political donations.

PAYCARE

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

Property

In accordance with FRS 102, the portion of the property occupied by Paycare is classified as freehold land and buildings and carried at cost less depreciation. That which is leased to third parties is classified as investment property and carried at the directors' assessment of fair value.

Investments

The market value of the company's investments is shown in the notes to the financial statements. The investments are currently registered in the name of Royal London Asset Management. The board meets with our fund managers at least once a year to discuss the performance of the fund and our requirements going forward. Senior management have regular correspondence with our fund managers and actuaries.

Employees

The company is committed to developing employees to help improve performance and achieve business objectives. Employees at all levels are aware of the aims and objectives of the organisation, and each individual is provided with full information on any matter that concerns them. The communication process is facilitated by a programme of regular departmental and company meetings, as well as individual review interviews.

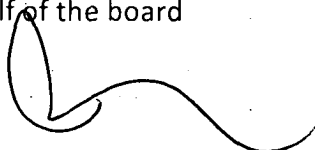
People really are at the heart of everything we do as a business. We are committed to continue to invest in our people. In 2018 we continued our work on a variety of health and wellbeing initiatives, these are well received and clearly demonstrate that we take this seriously.

In line with our commitment to support our community we introduced two days volunteering for all our people. Volunteering days were taken up by 27 (2017 – 8) members of staff during 2018 equating to 54 days/378 hours (2017 - 14 days/98 hours) at a value of £6,505 (2017 - £1,900).

Statement of disclosure to auditors

So far as the directors' are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



D A Whitmore
Chairman
7 March 2019

PAYCARE**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE**

Independent Auditors' Report to the Members of Paycare**Opinion**

We have audited the financial statements of Paycare for the year ended 31 December 2018, which comprise the Profit and Loss Account (the Technical Account and the Non-Technical Account), the Note of Historical Cost Surpluses and Deficits, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard in the UK and the Republic of Ireland" and FRS 103 "Insurance Contracts".

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 deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006;

Basis of opinion

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

Conclusions relating to going concern

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

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

PAYCARE**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE**

Other information

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report..

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

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

PAYCARE**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE**

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



Paul Tonks BSc (Econ) FCA (Senior Statutory Auditor)
For and on behalf of Edwards
Chartered Accountants
Statutory Auditors

Date 31 MAY 2019

34 High Street
Aldridge
Walsall
WS9 8LZ

PAYCARE**STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED 31ST DECEMBER 2018**

| | <u>Note</u> | 2018 £ | 2017 £ |
|--|-------------|-------------|-------------|
| Technical Account – General Business | | | |
| Earned premiums | | | |
| Gross premiums written | 3 | 6,581,760 | 6,327,130 |
| Allocated investment (loss)/gain transferred from the non-technical account | | (16,855) | 71,177 |
| Claims incurred | | | |
| Claims paid gross | | (5,177,182) | (5,156,889) |
| Change in the provision for claims | | 3,548 | (1,050) |
| | | <hr/> | <hr/> |
| | | 1,391,271 | 1,240,368 |
| Net operating expenses | 4 | (1,588,938) | (1,560,937) |
| | | <hr/> | <hr/> |
| Balance on technical account for general business | | (197,667) | (320,569) |
| | | <hr/> <hr/> | <hr/> <hr/> |

All of the activities of the company derive from continuing operations.

PAYCARE**STATEMENT OF INCOME AND RETAINED EARNINGS - CONTINUED**
YEAR ENDED 31ST DECEMBER 2018

| | <u>Note</u> | 2018 £ | 2017 £ |
|--|-------------|-------------|-------------|
| Non-Technical Account | | | |
| Balance on technical account for general business | | (197,667) | (320,569) |
| Investment income | 8 | 109,434 | 102,397 |
| Unrealised (losses)/gains on investments | | (153,898) | 96,851 |
| Investment expenses and charges | | - | (5,733) |
| Allocated investment loss/(gain) transferred to the general business technical account | | 16,855 | (71,177) |
| Other charges | 9 | (37,158) | (66,979) |
| | | <hr/> | <hr/> |
| Deficit on ordinary activities before tax | | (262,434) | (265,210) |
| Tax on deficit on ordinary activities | 10 | 5,297 | (18,921) |
| | | <hr/> | <hr/> |
| Deficit for the financial year transferred to reserves | 13 | (257,137) | (284,131) |
| | | <hr/> <hr/> | <hr/> <hr/> |

All of the activities of the company derive from continuing operations.

Statement of Comprehensive Income

A separate statement of comprehensive income has not been prepared as there are no changes from the balances detailed above.

PAYCARE**NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS
YEAR ENDED 31ST DECEMBER 2018**

| | <u>Note</u> | 2018 £ | 2017 £ |
|---|-------------|-----------------|------------------|
| Deficit on ordinary activities before tax | | (262,434) | (265,210) |
| Unrealised losses/(gains) recognised in the year | 21 | 153,898 | (96,851) |
| Realised gains on previous unrealised investments | | 57,939 | - |
| Historical cost deficit on ordinary activities before tax | | <u>(50,597)</u> | <u>(362,061)</u> |
| Historical cost deficit for the year retained after tax | | <u>(45,300)</u> | <u>(380,982)</u> |

PAYCARE**STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31ST DECEMBER 2018**

| | Realised £ | Unrealised £ | Total £ |
|--------------------------------------|------------------|-----------------|------------------|
| Balance at 1st January 2018 | 5,915,487 | 128,145 | 6,043,632 |
| Deficit for the year | (77,649) | (179,488) | (257,137) |
| Profit on realisation of investments | 57,939 | (57,939) | - |
| Deferred tax movement | (26,000) | 26,000 | - |
| Balance at 31st December 2018 | <u>5,869,777</u> | <u>(83,282)</u> | <u>5,786,495</u> |

All of the activities of the company derive from continuing operations

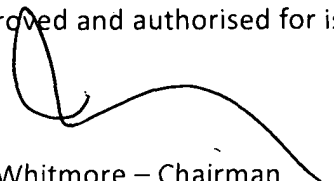
PAYCARE**BALANCE SHEET
AT 31ST DECEMBER 2018**

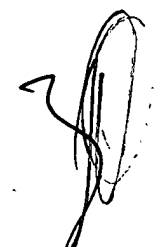
| | | 2018 | | 2017 | |
|--|-------------|-----------|----------|-----------|----------|
| | <u>Note</u> | <u>£</u> | <u>£</u> | <u>£</u> | <u>£</u> |
| ASSETS | | | | | |
| Investments | | | | | |
| Shares | 11 | 4,474,657 | | 4,854,145 | |
| Investment property | 11 | 266,420 | | 266,420 | |
| Investment in subsidiary | 11 | 100 | | 100 | |
| | | | | | |
| | | 4,741,177 | | 5,120,665 | |
| Debtors | | | | | |
| Debtors arising out of direct insurance operations – policyholders | | 370,405 | | 362,026 | |
| | | | | | |
| | | 370,405 | | 362,026 | |
| Other Assets | | | | | |
| Tangible fixed assets | 12 | 815,028 | | 735,567 | |
| Bank and cash | | 443,921 | | 356,965 | |
| | | | | | |
| | | 1,258,949 | | 1,092,532 | |
| Prepayments and accrued income | | | | | |
| | | 96,763 | | 110,544 | |
| | | | | | |
| | | 6,467,294 | | 6,685,767 | |


PAYCARE**BALANCE SHEET
AT 31ST DECEMBER 2018**

| | <u>Note</u> | 2018 £ | 2017 £ |
|-------------------------------------|-------------|------------------|------------------|
| LIABILITIES | | | |
| Reserves | | 5,786,495 | 6,043,632 |
| Technical provisions | | | |
| Provisions for claims outstanding | | 153,790 | 150,242 |
| Provisions for liabilities | | | |
| FSCS Levy | 13 | 66,215 | 63,630 |
| Deferred taxation | 14 | - | 26,000 |
| Creditors | 15 | 280,052 | 208,381 |
| Accruals and deferred income | | 180,742 | 193,882 |
| | | <u>680,799</u> | <u>642,135</u> |
| | | <u>6,467,294</u> | <u>6,685,767</u> |

Approved and authorised for issue by the Board of Directors on 7 March 2019


D A Whitmore – Chairman


J L Knight – Director


K A Rogers – Chief Executive

Company Registration No: 00820791

PAYCARE
CASH FLOW STATEMENT
YEAR ENDED 31ST DECEMBER 2018

| | <u>Note</u> | 2018 £ | 2017 £ |
|--|-------------|-------------|-----------|
| Net cash inflow/(outflow) | | | |
| from operating activities | 21 | 79,685 | (216,368) |
| Taxation | | | |
| Taxation paid | | (12,539) | (42,726) |
| | | <hr/> | <hr/> |
| Net cash generated/(used in) | | | |
| from operating activities | | 67,146 | (259,094) |
| Cash flow from investing activities | | | |
| Receipts from sale of tangible fixed assets | | - | 5,925 |
| Purchase of tangible fixed assets | | (186,015) | (123,053) |
| Receipts from the sale of investments | | 2,600,000 | - |
| Purchases of investments | | (2,400,000) | - |
| Purchase of subsidiary undertaking | | - | (100) |
| | | <hr/> | <hr/> |
| Net cash generated/(used in) investing activities | | 13,985 | (117,228) |
| | | <hr/> | <hr/> |
| Net increase/(decrease) in cash at bank and in hand | | 81,131 | (376,322) |
| Cash and cash equivalents at the beginning | | | |
| of the year | | 350,120 | 726,442 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the year | | 431,251 | 350,120 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents consist of: | | | |
| Bank and cash | | 443,921 | 356,965 |
| Claims bank account | | (12,670) | (6,845) |
| | | <hr/> | <hr/> |
| Cash and cash equivalents | | 431,251 | 350,120 |
| | | <hr/> | <hr/> |

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018**

1. Accounting Policies**Company information**

Paycare is a private company limited by guarantee and is an insurance company domiciled and incorporated in England and Wales. The registered office is Paycare House, George Street, Wolverhampton, WV2 4DX.

(a) Basis of preparation

Except as noted below, the financial statements have been prepared under the historical cost convention as modified by the revaluation of investments and in accordance with FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), FRS103 "Insurance Contracts" ("FRS 103") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

In accordance with FRS 103, the company has applied existing accounting policies for insurance contracts.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic review which forms part of the directors' report. The directors' report also describes the financial position of the company, its cash flows, the company's objectives and its risk management policies.

The company has taken advantage of the exemption under section 398 of the Companies Act 2006 not to prepare consolidated financial statements on the basis that the group it heads qualifies as a small group. These financial statements therefore present information about the company as an individual undertaking and not about its group.

(b) Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

PAYCARE
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018

1. Accounting Policies (continued)
(c) Insurance classification

The company's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

(d) Premiums

Premiums represent the proportion of premiums received, net of Insurance Premium Tax in the year relating to cover provided for the year.

(e) Claims

Claims payable are recognised in the accounting period in which the insured event occurs. Provision is made for the estimated cost of claims incurred but not paid at the balance sheet date.

(f) Taxation

The company is a mutual insurance company and is therefore not liable to Corporation Tax on dealings with policyholders. The taxation shown in the financial statements represents the liability on rents received, capital gains and investment income.

(g) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation has been provided to write off the cost of tangible fixed assets over their expected useful lives on a straight-line basis and, in addition, where there is evidence of impairment, tangible fixed assets will be written down to their recoverable amounts. The following expected useful lives have been used:

| | |
|---|------------|
| Computer Equipment | 3-10 years |
| Motor Vehicles | 3 years |
| Furniture & Fittings | 4 years |
| Short Life Assets included in Freehold Property | 10 years |
| Freehold Property | 100 years |

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018**

1. Accounting policies (continued)**(g) Tangible fixed assets and depreciation (continued)**

Tangible fixed assets are reviewed for any indication that the asset may be impaired at each balance sheet date. If such indication exists, the recoverable amount of the asset, or the asset's cash generating unit, is estimated and compared to the carrying amount.

(h) Investment properties

The fair value of investment properties is assessed every financial year with any surplus or deficit being transferred to realised reserves. No depreciation is provided on investment properties.

(i) Investment in subsidiary

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss. A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

(j) Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

(k) Pension costs

The company operates a defined contribution pension scheme for all employees. The pension cost charge represents contributions payable by the company to the scheme in respect of the year.

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018**

1. Accounting policies (continued)**(l) Investments**

Listed investments are included in the balance sheet at market value.

Investment income includes dividends, interest, rents and gains and losses on the realisation of investments and is initially dealt with in the non-technical account. Dividends are recorded when received. Interest and rents are accounted for when received.

A transfer of the net investment return, including unrealised gains and losses, is made from the non-technical account to the technical account in order to reflect the return on the assets directly attributable to the insurance business.

Realised gains and losses are calculated as the difference between net sales proceeds and purchase price. If the investment has been held since the previous year end, the realised gain or loss will be calculated as the difference between net sales proceeds and book value. The difference between book value and purchase price is transferred from unrealised reserves to realised reserves.

Unrealised gains are initially taken to the non-technical account.

(m) Other financial assets

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial assets are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include trade and other receivables, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Other financial assets classified as fair value through profit or loss are measured at fair value.

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018**

1. Accounting policies (continued)**(m) Other financial assets*****Debtors and other receivables***

Trade debtors and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'debtors' and are measured at amortised cost less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks and bank overdrafts.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

De-recognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018**

1. Accounting policies (continued)**(n) Financial liabilities**

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Other financial liabilities classified as fair value through profit or loss are measured at fair value.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

De-recognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

(o) Deferred taxation

Deferred tax is recognised in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the non-technical account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax relating to property, plant and equipment is measured using the revaluation model. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018****2. Critical accounting estimates and judgements**

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Financial Services Compensation Scheme Levy

The financial services compensation scheme levy is required by the FCA to cover unforeseen circumstances which would result in a position whereby the company would be unable to make payments to its claimants. The levy is calculated at 1% of turnover and can be requested for up to 1 year after transactions have taken place.

Provisions for claims outstanding

Provision is made for liabilities arising from outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Management estimate the provision based on their judgement and levels of claims in previous years and typically a claim can take up to 13 weeks to be processed. Adjustments to the amounts of claim provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

3. Gross premiums written

| | 2018 £ | 2017 £ |
|--|------------------|------------------|
| Premiums received | 7,382,347 | 7,046,836 |
| Less personal accident insurance premium | (6,000) | (6,000) |
| Less insurance premium tax | (794,587) | (713,706) |
| | <u>6,581,760</u> | <u>6,327,130</u> |

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018****4. Net operating expenses**

| | 2018 | 2017 |
|----------------------|------------------|------------------|
| | £ | £ |
| Staff costs (note 6) | 880,307 | 836,244 |
| Sales and marketing | 231,858 | 251,468 |
| Administration costs | 476,773 | 473,225 |
| | <u>1,588,938</u> | <u>1,560,937</u> |

5. Net operating expenses include

| | 2018 | 2017 |
|---|----------------|----------------|
| | £ | £ |
| Depreciation of owned assets | 106,554 | 84,584 |
| Profit on disposal of tangible fixed assets | - | (5,925) |
| Auditors' remuneration – audit | 16,140 | 14,590 |
| – non-audit | 325 | 6,433 |
| Operating lease rentals | 3,660 | 3,050 |
| | <u>126,679</u> | <u>102,732</u> |

6. Staff costs

| | 2018 | 2017 |
|-----------------------|----------------|----------------|
| | £ | £ |
| Wages and salaries | 710,208 | 668,182 |
| Social security costs | 80,535 | 81,755 |
| Pension costs | 89,564 | 86,307 |
| | <u>880,307</u> | <u>836,244</u> |

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018****6. Staff costs (continued)**

Average number of persons employed:

| | 2018 <u>No.</u> | 2017 <u>No.</u> |
|-------------------------------|--------------------|--------------------|
| Management and administration | 21 | 21 |
| Sales and marketing | 7 | 6 |
| | <u>28</u> | <u>27</u> |
| Full-time equivalent | 24 | 23 |
| | <u>4</u> | <u>6</u> |
| Non-executive directors | | |

7. Directors' remuneration

| | 2018 <u>£</u> | 2017 <u>£</u> |
|---|------------------|------------------|
| Emoluments including benefits in kind | 174,271 | 144,091 |
| Company contributions to defined contribution Pension scheme | 18,841 | 15,208 |
| | <u>193,112</u> | <u>159,299</u> |

At 31st December 2018 there are two directors to whom retirement benefits are accruing (2017: two).

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018****7. Directors' remuneration (continued)****Directors' emoluments - key management personnel**

Included in the directors' remuneration figure, the company's non-executive directors received remuneration for their services as key management as follows:

| | 2018 £ | 2017 £ |
|---------------------------------------|-------------------|-------------------|
| Non-executive directors' remuneration | 15,863 | 14,086 |
| | <u> </u> | <u> </u> |

8. Investment income

| | 2018 £ | 2017 £ |
|--|-------------------|-------------------|
| Income from freehold land and buildings | | |
| Rent received | 24,488 | 20,330 |
| Other financial investments | | |
| Shares | 108,701 | 80,194 |
| Debt securities | - | - |
| Interest on cash deposits | 1,835 | 1,873 |
| Loss on the realisation of investments | (25,590) | - |
| | <u> </u> | <u> </u> |
| | 109,434 | 102,397 |
| | <u> </u> | <u> </u> |

9. Other charges

| | 2018 £ | 2017 £ |
|----------------------|-------------------|-------------------|
| Charitable donations | 37,158 | 66,979 |
| | <u> </u> | <u> </u> |
| | 37,158 | 66,979 |
| | <u> </u> | <u> </u> |

PAYCARE

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018
10. Tax on (deficit)/surplus on ordinary activities

| | 2018 £ | 2017 £ |
|--|-----------|-----------|
| Corporation tax due at 19% (2017 – 19.25%) | | |
| UK corporation tax on gains and investment income | 20,703 | 3,167 |
| Adjustments in respect of previous years | - | (246) |
| | <hr/> | <hr/> |
| Total current tax | 20,703 | 2,921 |
| Deferred tax | | |
| Deferred tax (credit)/charge | (26,000) | 16,000 |
| | <hr/> | <hr/> |
| Tax on (deficit)/surplus on ordinary activities | (5,297) | 18,921 |
| | <hr/> | <hr/> |
| | 2018 £ | 2017 £ |
| Factors affecting the tax (credit)/charge for the year | | |
| (Deficit)/surplus on ordinary activities before taxation | (262,434) | (265,210) |
| | <hr/> | <hr/> |
| (Deficit)/surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017 – 19.25%) | (49,862) | (51,053) |
| Mutual trading profits not tax deductible | 34,354 | 75,411 |
| | <hr/> | <hr/> |
| | (15,508) | 24,358 |
| Effects of: | | |
| Dividends received not taxable | (8,900) | (2,547) |
| Movement in market value of equities | 29,241 | (18,644) |
| Over provision from previous year | - | (246) |
| Chargeable gains | 11,008 | - |
| Net gains on investments | 4,862 | - |
| Deferred tax | (26,000) | 16,000 |
| | <hr/> | <hr/> |
| Tax (credit)/charge for the year | (5,297) | 18,921 |
| | <hr/> | <hr/> |

PAYCARE

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018
11. Investments**Investment property**£**Fair value and net book value**

| | |
|--|---------|
| At 1st January 2018 and 31st December 2018 | 266,420 |
|--|---------|

| | |
|--|----------------|
| | <u>266,420</u> |
|--|----------------|

There has been no recent valuation undertaken by an independent professional and as a result, the investment property is carried at the directors' assessment of fair value.

Shares and debt securities

| | Market Value | | Cost | |
|-------------|------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| | <u>£</u> | <u>£</u> | <u>£</u> | <u>£</u> |
| UK equities | 4,474,657 | 4,854,145 | 4,557,787 | 4,700,000 |
| | <u>4,474,657</u> | <u>4,854,145</u> | <u>4,557,787</u> | <u>4,700,000</u> |

All UK investments are listed on the UK stock exchange.

Investment in Subsidiary

| | 2018 | 2017 |
|-------------------------|----------|----------|
| | <u>£</u> | <u>£</u> |
| Cost and net book value | 100 | 100 |

The company holds a 100% interest in the ordinary share capital of Paycare Partners Limited, a company incorporated and registered in the United Kingdom. Paycare Partners Limited was incorporated on 7 February 2017 and since incorporation to 31 December 2018 was dormant.

PAYCARE

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018
12. Tangible fixed assets

| | <u>Freehold Property</u> | <u>Motor Vehicles</u> | <u>Furniture & Fittings</u> | <u>Computer Equipment</u> | <u>Total</u> |
|-----------------------|------------------------------|---------------------------|-------------------------------------|-------------------------------|--------------|
| | <u>£</u> | <u>£</u> | <u>£</u> | <u>£</u> | <u>£</u> |
| Cost | | | | | |
| At 1st January 2018 | 496,268 | - | 235,841 | 810,653 | 1,542,762 |
| Additions | 6,618 | - | 16,144 | 163,253 | 186,015 |
| Disposals | - | - | (93,038) | (171,953) | (264,991) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December 2018 | 502,886 | - | 158,947 | 801,953 | 1,463,786 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation | | | | | |
| At 1st January 2018 | 101,508 | - | 203,483 | 502,204 | 807,195 |
| Charge for the year | 8,405 | - | 14,059 | 84,090 | 106,554 |
| Disposals | - | - | (93,038) | (171,953) | (264,991) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December 2018 | 109,913 | - | 124,504 | 414,341 | 648,758 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | | |
| At 31st December 2018 | 392,973 | - | 34,443 | 387,612 | 815,028 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December 2017 | 394,760 | - | 32,358 | 308,449 | 735,567 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

13. Provisions for liabilities – FSCS Levy

| | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|
| | <u>£</u> | <u>£</u> |
| At 1st January | 63,630 | 64,796 |
| Profit and loss account (credit)/charge | 2,585 | (1,166) |
| | <hr/> | <hr/> |
| At 31st December | 66,215 | 63,630 |
| | <hr/> | <hr/> |

The FSCS levy is required by the FCA to cover unforeseen circumstances which would result in a position whereby the company would be unable to make payments to its claimants. The levy is calculated at 1% of turnover and can be requested for up to 1 year after transactions have taken place.

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018****14. Provisions for liabilities – deferred taxation**

| | 2018 £ | 2017 £ |
|------------------------------|-----------|-----------|
| At 1st January | 26,000 | 10,000 |
| Deferred tax (credit)/charge | (26,000) | 16,000 |
| | <hr/> | <hr/> |
| At 31st December | - | 26,000 |
| | <hr/> | <hr/> |

The deferred taxation liability is made up as follows:

| | 2018 £ | 2017 £ |
|--|-----------|-----------|
| Potential capital gains on disposals of fixed assets and investments | - | 26,000 |
| | <hr/> | <hr/> |

15. Creditors

| | 2018 £ | 2017 £ |
|------------------------------|-----------|-----------|
| Claims bank account | 12,670 | 6,845 |
| Corporation tax | (3,516) | (11,680) |
| Taxation and social security | 197,263 | 193,741 |
| Other creditors | 73,635 | 19,475 |
| | <hr/> | <hr/> |
| | 280,052 | 208,381 |
| | <hr/> | <hr/> |

All amounts included within creditors fall due for payment within one year.

PAYCARE

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018
16. Financial instruments

| | 2018 £ | 2017 £ |
|--|------------------|------------------|
| Financial assets | | |
| <i>Measured at fair value</i> | | |
| UK Equities | 4,474,657 | 4,854,145 |
| | <u>4,474,657</u> | <u>4,854,145</u> |
| <i>Measured at amortised cost</i> | | |
| Debtors arising out of direct insurance operations | 370,405 | 362,026 |
| Prepayments and accrued income | 96,763 | 110,544 |
| | <u>467,168</u> | <u>472,570</u> |
| <i>Measured at cost</i> | | |
| Cash and cash equivalents | 443,921 | 356,965 |
| | <u>443,921</u> | <u>356,965</u> |
| Financial liabilities | | |
| <i>Measured at cost</i> | | |
| Claims bank account | 12,670 | 6,845 |
| | <u>12,670</u> | <u>6,845</u> |
| <i>Measured at amortised cost</i> | | |
| Other creditors | 73,635 | 19,475 |
| Taxation and social security | 197,263 | 193,741 |
| | <u>270,898</u> | <u>213,216</u> |

All the company's financial liabilities fall due for payment within one year.

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018**

17. Risk arising from insurance contracts

Insurance risk is the likelihood that an insured event will occur, and a claim paid. The risk lies in movements that impact the profit and loss account. Risks relating to catastrophic events, which may cause a short-term increase in claims, are included within this risk.

As a healthcare cash plan within the general insurance sector, Paycare's business and insurance risk are within the UK only and the Board consider the primary risks relating to insurance contracts to be:

- Abnormally high claims rates
- Sudden loss of major customers and policyholders

Risks arising from insurance contracts are also identified separately in detail within our ORSA (Own Risk and Solvency Assessment).

The impact of a catastrophic event, has been reviewed by the Board but is not considered material due to our product's terms and conditions regarding hospitalisation and treatments.

Abnormally high claims rates

We have set our risk tolerance level to be a rolling 6-month increase of 10% in claims rates. Premiums and claims levels are monitored monthly and weekly to identify trends.

Product pricing is an important factor and we regularly review and design our products for profitability and viability within the risk tolerance thresholds.

Our business is such that claims are high in volume but low in value and as our contracts are monthly renewable, amendments to pricing and or benefits can quickly be implemented.

Based on the 2018 claims rate, for every percentage point increase in the claims rate, the company's result before tax for 2018 and balance sheet reserves at 31 December 2018 would reduce by £65,818 (2017 - £63,271).

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018****17. Risk arising from insurance contracts (continued)****Sudden loss of major customers and policyholders**

We have set our risk tolerance level to our policyholder numbers being not less than 10% of current levels.

We pride ourselves in our high standard of customer service to minimise the loss of existing policyholders. Leavers are monitored as part of our customer retention processes.

We establish and maintain personal relationships with key decision makers at major customers.

Local, regional and national economic conditions are monitored, and our sales and marketing strategy is adjusted as necessary.

We establish controls over both the size of groups that we currently deal with and those groups that we look to acquire as new business in the future.

Based on policyholder numbers at 31 December 2018 and using the claims rate for 2018 as above, for every percentage point decrease in policyholder numbers the company's result before tax for 2018 and balance sheet reserves at 31 December 2018 would reduce by £17,590 (2017 - £11,549).

18. Operating lease commitments**Lessee**

At the reporting date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2018 | 2017 |
|----------------------------|--------------|--------------|
| | £ | £ |
| Within one year | 3,660 | 3,660 |
| Between two and five years | 1,220 | 4,880 |
| | <u>4,880</u> | <u>8,540</u> |

PAYCARE**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018**

19. Pension costs

The company operates a defined contribution pension scheme for all employees.

The pension cost charge represents contributions payable for the year by the company to the scheme and amounted to £89,564 (2017 - £86,307). At 31st December 2018, there were £Nil contributions outstanding (2017 - £Nil).

20. Related party transactions

J L Knight, non-executive director, is also a member of FBC Manby Bowdler LLP.

During the year the company was charged £835 (2017 - £1,860) from FBC Manby Bowdler LLP. At 31 December 2018 there were no amounts payable by the company to FBC Manby Bowdler LLP (2017 - £Nil). All transactions were undertaken on normal commercial terms and on an arm's length basis.

J Gobran, non-executive director, is also a director of I-Secured Limited.

During the year the company was charged £1,920 (2017 - £11,220) from I-Secured Limited. At 31 December 2018 there were no amounts payable by the company to I-Secured Limited (2017 - £Nil). All transactions were undertaken on normal commercial terms and on an arm's length basis.

D McIntosh, non-executive director, is also a director and trustee of Sickie Cell and Thalassaemia Support Project (Wolverhampton).

During 2017 the company welcomed Sickie Cell and Thalassaemia Support Project (Wolverhampton) to use vacant office space in Paycare House. This is provided rent free and has helped the charity save approximately £18,000 (2017 - £15,000) in rent.

PAYCARE

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2018
21. Reconciliation of (deficit)/surplus on ordinary activities before tax to net cash (outflow)/inflow from operating activities

| | 2018 | 2017 |
|--|---------------|------------------|
| | £ | £ |
| Deficit on ordinary activities before tax | (262,434) | (265,210) |
| Depreciation | 106,554 | 84,584 |
| Loss on the realisation of investments | 25,590 | - |
| Unrealised losses/(profits) on investments | 153,898 | (96,851) |
| Profit on the sale of tangible fixed assets | - | (5,925) |
| (Increase)/decrease in insurance debtors | (8,379) | 10,547 |
| (Increase)/decrease in other debtors and prepayments | 13,781 | 18,495 |
| Increase in creditors and accruals | 44,542 | 40,208 |
| Increase/(decrease) in FSCS levy | 2,585 | (1,166) |
| Increase/(decrease) in provisions for claims outstanding | 3,548 | (1,050) |
| | <hr/> | <hr/> |
| Net cash inflow/(outflow) from operating activities | 79,685 | (216,368) |
| | <hr/> | <hr/> |

22. Analysis of changes in net funds and investments

| | At 01.01.18 | Cash flows | Movements in market value | Realised gains/ (losses) | At 31.12.18 |
|----------------------------------|------------------|------------------|---------------------------------|--------------------------------|------------------|
| | £ | £ | £ | £ | £ |
| Bank and cash | 356,965 | 86,956 | - | - | 443,921 |
| Claims bank account | (6,845) | (5,825) | - | - | (12,670) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total bank and cash | 350,120 | 81,131 | - | - | 431,251 |
| UK equities | 4,854,145 | (200,000) | (153,898) | (25,590) | 4,474,657 |
| Debt securities | - | - | - | - | - |
| Investment property | 266,420 | - | - | - | 266,420 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Investments | 5,120,565 | (200,000) | (153,898) | (25,590) | 4,741,077 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net funds and investments | 5,470,685 | (118,869) | (153,898) | (25,590) | 5,172,328 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |