# UIA (Insurance) Limited

# Annual Reports and Financial Statements for the year ended 31 December 2018 of The Society and its subsidiaries

# UIA (Insurance) Limited

## Contents



### Registered office
UIA (Insurance) Limited
Kings Court
London Road
Stevenage
Herts
United Kingdom, SG1 2TP

### Society registration number
Registered Number 2898R
Co-operative Community Benefit Societies Act 2014

### Advisors

### Statutory auditor
Deloitte LLP
2 Hardman Street
Manchester M3 3HF

### Bankers
Unity Trust Bank plc
Four Brindleyplace,
Birmingham B1 2JB

### Investment managers
Royal London Asset Management Ltd
55 Gracechurch Street
London EC3V 0RL

# UIA (Insurance) Limited

## Chairperson's Statement

### Governance of your Society

Our Mutual status means you, our members own the Society and thus, over time, any profits are reinvested in the business, keeping premiums as low as possible, while providing members and their families with a wide range of real value for money products – all backed by our fast and friendly service. Our 2018 member survey provided good evidence that our products and services are valued, with 81% of UIA policyholders saying that they 'definitely will' or are 'very likely to', renew their insurance. At the point of claim, similar levels of satisfaction were seen, where 89% of UIA policyholders either 'agreed', or 'strongly agreed' that they were happy with the claims process.

The Governance objectives of the Board are set out in our Board Charter, which was updated in 2016 to reflect the introduction of the Senior Insurance Management Regime.

The majority of Non-Executive Directors continue to be independent as defined by the Association of Financial Mutuals UK Corporate Governance Code, although there will always be a need for the balance of the Board of Directors to include nominees from our trade union affinity partners. All appointments to the Board are managed by the Nominations and Remuneration committee, ensuring that any candidate meets the criteria set by the committee.

The Board has three committees. All the members of the Audit Committee and the majority of the members of the Risk and Nominations and Remuneration committees are independent.

The Board has delegated execution of the Society's strategy to the Chief Executive Officer (CEO). The CEO is assisted in the performance of his duties by the Executive Group. There are also executive working groups covering specific areas, including: Capital and Reserving Group, Investment Management Group, Risk Management Group, Pensions Group, Recruitment and Reward Group and the Product, Pricing, Underwriting and Partnerships Group. During 2019 we also plan to launch the Colleague and Membership Groups to look after the needs of these crucial stakeholders.

### Our people and business transformation

The transformation of our business has continued during 2018 and this included the successful implementation of our new claims system in July. Other successful projects included key regulatory matters such as the implementation of GDPR and the Insurance Product Information Document ('IPID').

We have also spent a significant time on preparing for the delivery of our new pricing, product and underwriting system and our new policy administration system. Work on both of these major changes will continue during 2019.

### Financial performance

The 2018 underwriting results have been significantly impacted by the Beast from the East weather event in February and March of that year. The combination of extremely cold air from Siberia and Storm Emma affected the whole UK property insurance industry severely and cost the Society some £2m in additional claims. The particularly dry weather also led to a significant increase in subsidence claims in 2018. These events, together with a series of large fire claims for our members, have led to an underwriting loss of some £7.5m for 2018 (2017: £4.4m loss).

In recent years, gains on the equity portfolio have mitigated the impact of underwriting losses. However in late 2017 the Board took the prudent decision to de-risk the investment portfolio and invest in a mix of bonds and cash. This has protected the Society from the significant stock market falls in the last quarter of 2018, but does mean that expected investment returns will be at a lower level than recent years.

As an insurer we exist to serve our members and to pay their claims when they are unfortunate enough to suffer an insurance event. As a mutual, we do not need to smooth our results so that we can pay dividends to shareholders. However, the underwriting losses of recent years have led us to review our pricing and premiums for many members will have seen some increase. This step has been necessary to ensure that the Society remains viable and so that we can continue to serve our members for the longer term.

The financial markets volatility associated with both BREXIT and world events generally, have continued through 2018 and into 2019 to date.

Whilst total assets decreased due to the aforementioned losses, our Solvency Capital Requirement coverage has improved during the year from 173% to 194%.  This is comfortably above our own internal minimum risk appetite level of 150% or more. Key reasons for the improved capital cover include the reduced pension deficit and the benefit from the pricing actions that we have needed to take.

# UIA (Insurance) Limited

## Chairperson's Statement (continued)

### Future strategy

Our primary focus continues to be on working closely with all our union partners to maximise the benefit to them, their members and UIA Mutual. We will also write business in other markets where this can support our primary objective and provide additional scale for the business. Opportunities include working with like-minded organisations to offer our core products to their members. We have in the last year repriced the business written through a small number of aggregator websites, which has reduced new business volumes. We remain committed to writing such business where it can be underwritten on a profitable basis and help provide some geographical and other diversification for our other insurance business.

Our infrastructure improvements continue in 2019 and beyond. Of particular focus for the next 18 months, will be the development of our new policy administration system and our pricing and underwriting tools.

### Working with the community

We have decided to close the legal entity that was our Charitable Foundation in order to save administration and audit costs, but continue to work with local projects that support and develop the social aims and aspirations of not only our trade union partners, but also our colleagues employed here at UIA Mutual, who raise additional funds for local causes.

In 2018 our colleagues provided donations to Stevenage Community Foodbank and the Society donated £2,500 each to the foodbank and Stevenage Haven, which looks after young homeless people.

### Board composition

The only significant change in the last year has been the appointment of John Nickson as Finance Director and Society secretary. John is a Chartered Accountant and Chartered Insurer and has brought with him significant financial services experience. John's appointment was confirmed at the Board meeting of 26 June 2018.

### Our colleagues

Finally I would like to thank all our colleagues who have worked so hard in the last year to continue to deliver a high quality service to our members at a time of great change.

Peter Dodd

Peter Dodd
Chair of the Board
9 April 2019

## Strategic Report

### Society purpose

Our continued aim is to be the first choice personal lines provider to members of trade unions, their families and other like-minded organisations and their members, through the provision of first class service and products.

### Business model and strategy

In order to achieve this mission our corporate aim is to remain an independent mutual that is financially strong and operating profitably. Our key measures of strength and profitability are our Solvency Ratio and our Combined Operating Ratio and we aim to deliver these key targets primarily through the underwriting and administration of household insurance, supported by the provision of other complementary products. During the year under review, the Society continued to underwrite Home Emergency Assistance (Class 18) business and also Before The Event (BTE) legal expenses insurance. We also continue to underwrite After The Event (ATE) legal expenses insurance, although this business is largely in run-off. As a mutual, we have no shareholders to pay and we are thus able to generate long-term value to our policyholders. We aim to do this through a combination of excellent customer service, competitive premiums and the prompt payment of all valid claims.

Our commercial strategy is dual focused:

First, to continue extensive engagement with members of our key business partners, the trade unions, through a number of different communication channels, including direct mail, digital media, magazines, conferences and face-to-face contact with key branch, regional and national officials. Through improved communication with our membership we can deliver insurance that meets their requirements, enhances their journey from quote to buy and in some cases to claims notification and settlement, and thus provide the best service to our members.

Second, to offer our products to like-minded members of the general public through our Together Mutual Insurance brand largely distributed through digital routes. Through this brand we also seek to develop our “Affinity” relationships with like- minded organisations, as well as expanding into adjacent markets.

We are solely UK-based with a call centre encompassing the entire operation from sales and policy administration to claims handling and payment in Stevenage and an out-sourced out-of-hours 24/7 claims service operating from Cardiff.

### Review of the business

Our results for the year ended 31 December 2018 are set out on pages 33 and 34 and the balance sheet position at the year-end is set out on pages 35 and 36.

2018 was an extremely poor year for us. Our result, a loss of £8.1m has arisen due to a number of factors:

Firstly, our underwriting result, a loss of £7.5 m, was adversely affected by the “Beast from the East” freeze in February and March 2018 at a cost of £2m. More importantly, however, inappropriate pricing for the level of risk assumed was in place for much of 2017 and into early 2018, leading to significant losses through the Together brand in particular. This was identified in March 2018 and in May 2018 the first of a number of corrective pricing and underwriting actions were introduced. These changes will put our business on a much stronger footing for 2019 and beyond.

Secondly, we chose to de-risk our investment portfolio by moving our equity holdings into short and medium dated funds. This move protected our balance sheet and our solvency ratio is in-line with many other insurers. This remains the right investment stance for us into 2019 and beyond as we invest over a medium-term time line. However, in doing so, we faced losses arising from market interest rate changes. Over the medium term, interest rate rises are welcome as yields also rise.

Finally our expense base remains under scrutiny as we look to match our costs more appropriately to our earnings. We will introduce efficiencies into our cost base through selective investment into our operating model, and our transformation programme will deliver key components of this. At the same time, we will continue to develop and support our colleagues so that they can continue to deliver the personalised service levels that our members rightly expect. In the near term, we plan to return the business to a break-even position.

Our balance sheet has retained profits of £30.5m and with a solvency capital ratio of 194% (2017 173%), the Society remains strong. Further information regarding our solvency capital ratio is disclosed in note 4.

## Strategic Report (continued)

### BREXIT

The Board has approved these Reports and Accounts on 9 April 2019, 3 days before UK formally has to leave the European Union without any withdrawal agreement or have negotiated a further extension to the withdrawal date with the agreement of the other 27 members of the Union. For the reasons explained below, the Board is satisfied that it is able perform its obligations in respect of, and to approve these Reports and Accounts, despite the obvious uncertainties that currently exist.

We are not expecting to have to alter our business model due to matters arising from any direct or indirect impact of the UK leaving the European Union in either a deal or no-deal exit. We underwrite entirely within the United Kingdom. We will, however, face the indirect consequences of such a move, such as a possible increase in general inflation and further uncertainty within investment markets.

It is possible that claims cost inflation may increase under some Brexit scenarios due to skills and materials challenges however it is not practical at this stage to ascertain what the impact of such shortages will be. Such an impact will affect the overall insurance market which may respond with generally increased premiums for home insurance.

Certain of our reinsurers are non-UK based within the European Union. We have investigated post Brexit arrangements and are satisfied that such arrangements will continue to be in place.

£5m of financial and reinsurance assets held on our balance sheet as at 31 December 2018 are issued or owed by financial institutions based in Europe. We consider these to be stated at fair market value as at the year end. The political situation at the date of approving these Reports and Accounts remains uncertain and this continues to affect investment and insurance markets.

A severe reduction in values of financial markets was included in our Own Risk and Solvency Assessment (Scenario 2) and the Society continued to meet the required statutory solvency and capital requirements over the business planning period.

The Board and senior management continue to review the situation and will take whatever action is necessary to protect the interests of the members of the Society.

## *S*trategic Report (continued)

### Key performance indicators (KPIs)

The Board considers that, in addition to the overall result, 2018 loss £8,065,000 (2017: loss £1,892,000), the following metrics represent the key financial dynamics of the Group:

| Key performance indicator | 2018 Actual | 2017 Actual |
|---|---|---|
| **Financial** | | |
| Combined operating ratio | 138.3% | 122.3% |
| Household loss ratio | 80.7% | 67.7% |
| Underlying household expense ratio | 49.0% | 46.7% |
| Retention rate | 76.5% | 77.3% |
| Investment yield excluding capital gains or losses | 2% | 5% |
| Return on capital employed | (20%) | (4%) |
| Solvency II cover | 194% | 173% |
| Total expense ratio *(see below) | 46.6% | 47.9% |
| Underlying expense ratio *(see below) | 42.7% | 41.4% |
| | | |
| **Non-financial** | | |
| | | |
| New business policy count | | |
| – Traditional | 10,750 | 12,310 |
| – Aggregator | 10,607 | 15,183 |
| – Together | 513 | 1,284 |
| Average new business premium | £171 | £165 |
| Claims frequency | 5.3% | 4.7% |
| Claims severity | £2,660 | £2,803 |
| Cost per acquisition | £74 | £84 |

* Note The 2017 total expense ratio and underlying expense ratio have been restated to be consistent with 2018.

We make use of alternative performance measures as detailed in the Glossary at the end of these financial statements.

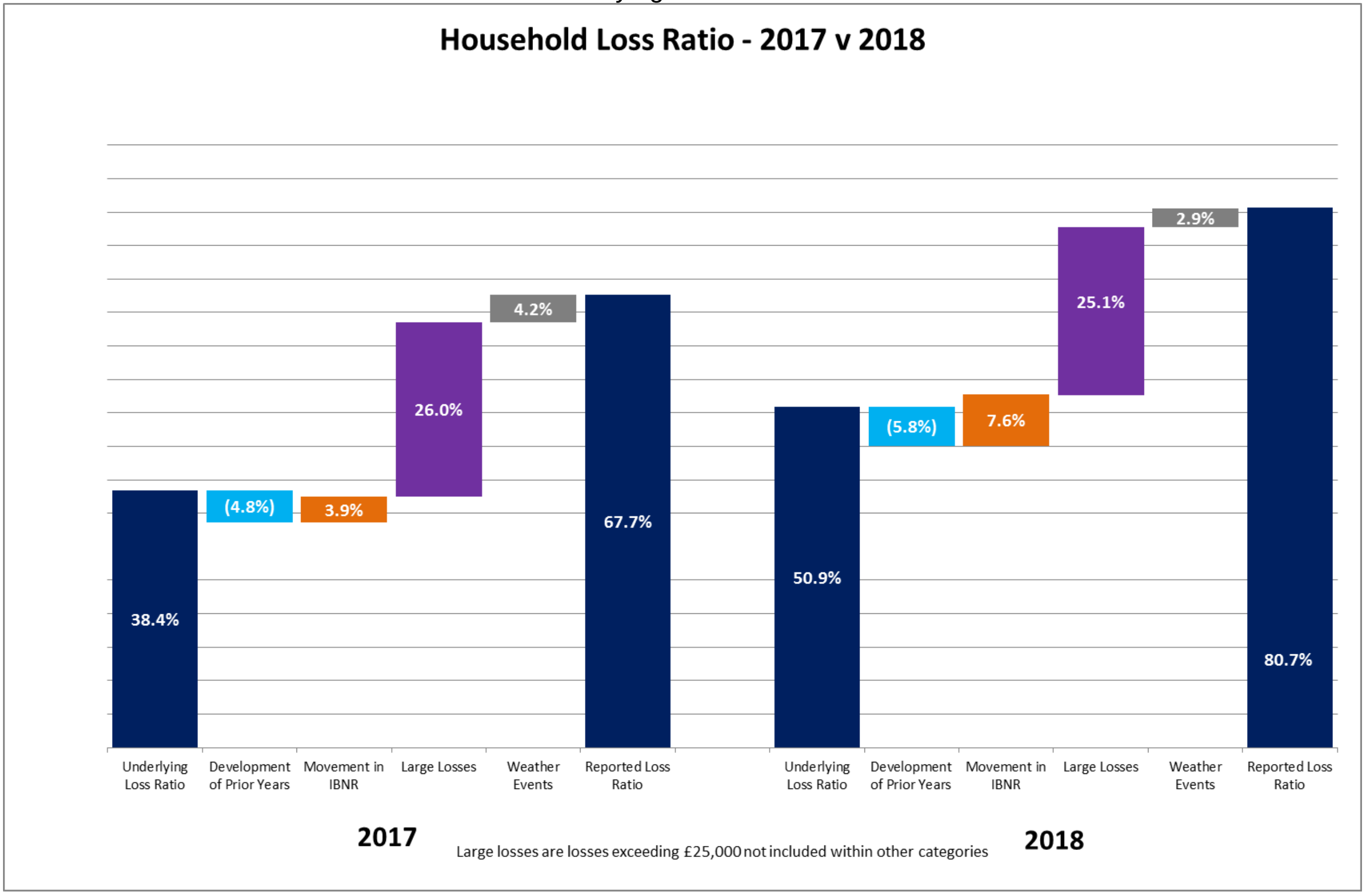
Combined operating ratio (COR) is a common measure for insurance companies and is calculated as total costs (claims plus commission and expenses) divided by net earned premium Income.

Our retention rate is good in comparison to our peers, particularly in our core affinity group markets, despite intense competition from the aggregator channels and the increasingly soft market in which we applied rate increases.

Finally our solvency ratio has increased as a result of management actions to de-risk our investment portfolio, re-price a large section of our business, and a reduction in our pension deficit. Additionally, we purchased a higher level of reinsurance cover in 2018 which has had a positive impact on our solvency ratio. We no longer hold any direct investments in equities and our investments are invested in fixed interest government and corporate bonds, cash equivalents and cash.

### Key performance indicators (KPIs) (continued)

The chart below shows the breakdown of our underlying household loss ratio:




### Key conduct indicators

One of the ways in which we can continue to differentiate ourselves as a mutual is to display those attributes that a customer-centric organisation has at its heart. Those attributes of fairness, trust and community coupled with a high level of member service, are key to what we do.

| Conduct risk indicator | | December 2018 | Target | December 2017 |
|---|---|---|---|---|
| Service levels | Customer services (month) | 83.6% | >80% | 92.0% |
| | New business (month) | 90.1% | >80% | 92.0% |
| | Claims abandoned calls (month) | 8.0% | <2% | 2.6% |
| Not taken up | Not taken up (month) | 2.9% | <5% | 1.9% |
| Declined claims | Claims declined (month) | 4.0% | <25% | 17.8% |
| Customer satisfaction | Marketing HAWD (month) | 92% | >90% | 95.0% |
| Reportable complaints to Financial Ombudsman | Claims and Customer services (for the year) | 40 | <25 | 24 |

Our claims abandoned calls rate is higher than our target rate due to the new system implantation absorbing more resources than anticipated during the latter part of the year. These are now reducing to more acceptable levels as we have increased the level of resources to include a small team on standby should the normal resource base become stretched at times of a high incidence of claims.

Our reportable claims to the Financial Ombudsman for 2018 now includes complaints arising from our add-on products, being home emergency, before the event legal insurance and travel.

## *S*trategic Report (continued)

### Executive pay

The Nominations and Remuneration Committee reviews executive pay using external advisers on a tri-annual basis. On an annual basis, subject to the approval of the Committee, executive pay is increased at the same rate as that applied to our colleagues. The Nominations and Remuneration Committee approved a Transformation Incentive Plan covering the period 2018 to 2020 for executive directors. Details are also disclosed in the Directors Remuneration Report.

### Principal risks and uncertainties

Our heat map of principle risks and uncertainties facing the business is shown below:  Our potential exposures to risks emerging from Brexit are disclosed separately on page 5 in the Strategic Report

**Likelihood**

| | | Low | Medium | High |
|---|---|---|---|---|
| | **High** | **4: Insurance and reserving risk<br>5: Cyber risk** | **1: Pension risk** | |
| **Impact** | **Medium** | **6: Credit risk<br>7: Market risk<br>8: Climate change** | **3: Pricing risk** | |
| | **Low** | | | **2: Business Transformation Risk** |

| Risk Number | Risk heading | Risk description | Controls and actions |
|---|---|---|---|
| 1 | **Pension risk** | The current employer pension scheme is in a deficit position. The latest triennial valuation took place in 2017 with an overall deficit.  This deficit is mainly attributable to UNISON, the co-sponsoring employer of the scheme. This deficit or surplus has changed at each annual re measurement and our share is approximately 5.0%. | A recovery plan is in place and additional deficit repair contributions have been agreed and are disclosed in Note 30: Retire benefit obligations. UNISON is carrying out a strategic review of its pension provision and the Society is represented at the review meetings. |
| 2 | **Business transformation risk** | Transformation programme failure and/or significant cost overruns<br>. | The transformation programme progress and implementation is reviewed by management, and costs are reviewed by the Board. Current progress on critical aspects has been good and the delivery of the claims system in July 2018 provides comfort regarding our ability to deliver the overall programme. Phase one of our new pricing system is due to be delivered by April 2019. |

## Strategic Report (continued)

## Principal risks and uncertainties (continued)

| Risk Number | Risk heading | Risk description | Controls and actions |
|---|---|---|---|
| 3 | **Pricing risk** | The Society operates in a highly competitive market and there is a risk that the Society either charges an inappropriate price for household insurance or fails to react quickly to changing market circumstances which could lead to a poor underwriting result. | The Society has invested in a pricing manager during 2018 who has worked through a series of tactical moves to improve the underwriting portfolio whilst still remaining within the overall strategy of being the first choice personal lines provider to members of trade unions, their families and other like-minded organisations and their members, through the provision of first class service and products. The Society also closely monitors the FSA's thematic review of overall pricing in the general insurance market. |
| 4 | **Insurance and reserving risk** | The Group's business is to accept insurance risk which is appropriate to enable the Group to meet its objectives. Reserving risk is associated with insurance risk and it occurs when claims provisions make insufficient allowance for claims, claims handling expenses and reinsurance bad debt provisions. There is a possibility that the Group's management does not make sufficient provision for exposures which could affect the Group's earnings and capital. | Within a Board approved underwriting policy and agreed risk appetites, the Group seeks to balance this insurance risk with the pursuit of appropriate reward in the form of sufficient levels of insurance premiums. Particular attention is paid to actual and forecast loss ratios, being claims incurred divided by premiums. The Group's actuarial team uses a range of recognised actuarial techniques to project the gross written premium, monitor claims development patterns and determine claims provisions. The Board of Directors review the reserving position quarterly. We additionally purchase catastrophe reinsurance together with per risk and liability protections on an excess of loss basis. |
| 5 | **Cyber risk** | The risk that our Information Technology systems are attacked from external sources causing loss of proprietary information or inability to trade. | The Group has invested in up-grading its Firewalls and continuously monitors any threats or attempted threats. This form of risk continuously evolves and our response needs to be agile to potential threats. The Society's operational resilience continues to be monitored in this respect and its response to Cyber risk is part of the internal audit plan for 2019. |
| 6 | **Credit risk** | The Group's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is that in the absence of appropriate guidelines and procedures the Group might not be able to limit its credit exposure which could affect earnings and capital. | The Group, through the Board and risk committee, seeks to limit, as far as is practical, exposure to credit risk from its investment and reinsurance activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk. |
| 7 | **Market risk** | Market risk is the risk arising from fluctuations in the values of, or income from, the Group's assets due to fluctuations in equities, interest rates, and/or exchange rates. | Market risk is managed through our assets being diversified and regular meetings with our investment fund manager. |
| 8 | **Climate change** | The risk that climate change significantly increases the risk of natural disasters such as Flooding and windstorm events in the UK | As an insurer of property, we are exposed to changes in climate that lead to increased windstorms or flooding events. Climate change is slow and affects all insurers and we believe we can adapt to such changes through our improved pricing mechanisms. |

## Changes to principal risks

Our principal risk last year was the introduction of the General Data Protection Regulations. We have successfully implemented the required changes and are adherent to the Regulations on an on-going basis. This has been replaced as principal risk by our Pension Risk. Additionally, this year, we have included our Business Transformation Risk. Last year we considered Conduct Risk to be a principal risk. We have concluded that, following training and strengthening of our compliance programme, this is no longer a principal risk, and is replaced by Pricing Risk.

### Reinsurance arrangements

Our reinsurance arrangements ran from 31 December 2017 to 31 December 2018. The Risk Committee recommended and the Board approved bringing forward the renewal date of such arrangements to the 31 December 2017, and purchasing significantly more catastrophe cover than had been purchased in prior periods. Our reinsurance arrangements for 2019 are also in place from 1 January 2019. All reinsurance security is vetted by the Risk Committee.

Additional reinsurance arrangements are in force where we underwrite Home Emergency and Legal expense insurances and we reinsure such insurance 100% to other reinsurance companies. These are long-standing arrangements with specialist unrated reinsurance companies.

### UIA Charitable Foundation

As Peter has mentioned, we have taken the decision to focus our charitable work through our primary vehicle, UIA (Insurance) Limited, and close the Charitable Foundation. The primary reason is to raise the Society's profile within both the local area and the broader charitable arena with its continued support of the charitable foundations aims. The Group remains committed to reinvesting members money's for good charitable purposes.

### Future development

Our primary focus continues to be to strengthen and broaden our partnerships within the Trade Union market, and to offer our members competitive household, and other quality insurance products, underpinned by outstanding service levels. We operate within the personal lines market which remains both highly competitive and highly regulated, and as a consequence is becoming dominated by larger players. We will use our small scale to our advantage by continuing to invest in a transformation programme that will give us the ability to operate in an agile, flexible and personalised nature which keeps members at the heart of our offerings.

During 2019 we will be launching our new pricing engines and commence building our new policy administration system which will enhance our pricing and risk selection and provide a platform to better service our members.

In 2018 our internal technical capability has been significantly strengthened following on from our investment in colleagues during 2017.

Our investment portfolio aim is to deliver consistent returns for our members in the expectation of ongoing political and economic uncertainty during our plan period.

Finally, we recognise that all our colleagues are the bedrock of our business, and on which our members rely, particularly when claims are made. The launch of our new claims system in mid-2018 will enable us to better service our members at such unfortunate times when such a claim is necessary.

A key focus for 2019 and beyond is, by continuing to underwrite appropriate risks at an acceptable price, whilst maintaining strict budgetary controls over our expenses and project development costs, to return to long-term financial sustainability following our result for this year.

Jon Craven
Director
9 April 2019

## Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

### Strategic Report

The principal activity of the Society is underwriting household insurance business. A review of the year is contained within the strategic report.

### Future developments

Details of future developments are contained within the strategic report.

### Distribution

The Directors do not recommend the payment of a distribution for 2018 (2017: nil).

### Directors

The following Directors held office throughout the year, except as noted below:

**Chairperson**

Peter Dodd

**Executive directors**

| | |
|---|---|
| Jon Craven | Chief Executive Officer |
| John Nickson | Appointed Finance Director 26 June 2018 |

**Non-executive directors**

| | |
|---|---|
| Bob Abberley | |
| Tim Holliday | Appointed Senior Independent Director 31 July 2018 |
| Lucia McKeever | |
| Eithne McManus | |
| Oliver Peterken | |
| Marion Saunders | Stood down as Senior Independent Director 31 July 2018 |
| Tony Woodley | |

### Charitable donations

During the year we made charitable donations of £15,050 (2017: £49,411). We did not make any political donations in either of 2018 and 2017.

### Statement as to disclosure of information to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Society's auditor, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the 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.

By order of the Board

Jon Craven
Director
9 April 2019

## Corporate Governance Report

The Directors present their corporate governance report. A brief biography of each of the Directors is given below:

### The Board of directors

*Peter Dodd*
Non-Executive Director – Independent – Chair

Peter was appointed a non-executive Director in 2009. Peter is chair of the Board following PRA approval on 10 February 2017.

Peter worked for the Post Office for 23 years and then for the Communication Workers Union (CWU) for 10 years. Peter held positions within the CWU from 1976 to 2007. He is a Director of the Mechanics Centre Ltd, an Employment Tribunal Member and a Disability Qualified Tribunal member of the Social Entitlement Chamber.

*Jon Craven*
Chief Executive Officer - Executive

Jon was appointed CEO on 4 April 2016. Jon has extensive experience within the financial services sector and has specific skills in the initiation and delivery of major strategic and profitable partnerships in banking, insurance and healthcare. Prior to joining UIA, he operated as a business consultant to Simply Health and held the position of Commercial Director at Benenden Health. His early career was in the building society sector, specialising in Mortgages and Insurance.

*John Nickson*
Finance Director - Executive

John was appointed Finance Director on 26 June 2018. John is a Chartered Accountant and Chartered Insurer and has extensive finance experience in a wide range of financial services organisations. Past employers include Wesleyan Assurance, Legal and General Insurance, Ecclesiastical Insurance, the Prudential and Swiss Re.

*Bob Abberley*
Non-Executive Director - Independent

Bob has been on the Board since June 2014. Bob was previously Assistant General Secretary for UNISON, with responsibilities ranging from inter-union relationships, industrial action strategies and pension governance. Bob was appointed chairperson of the Nominations and Remuneration Committee on 29th March 2018.

Bob is a member of UNISON and has been a UIA policyholder for over 15 years.

*Tim Holliday*
Non-Executive Director – Senior Independent Director

Tim joined the Board in May 2016.

Tim spent 19 years working in insurance for Eagle Star and then Zurich Insurance. Tim was Chief Underwriting officer for Zurich's UK Branch and also Managing Director of Zurich's Personal Lines business including its student broking subsidiary Endsleigh. Tim has also previously sat on the board of the Motor Insurance Bureau and the Insurance Fraud Bureau and is a former President of the Southampton Chartered Insurance Institute.

*Lucia McKeever*
Non-Executive Director – UNISON Representative

Lucia has been on the Board since January 2014 and is a past President of UNISON. Lucia is a champion of equality and human rights, and became active in the trade union movement more than 20 years ago.

*Eithne McManus*
Non-Executive Director – Independent

Eithne has been on the Board since November 2014 and is chair of the Audit Committee. Eithne is a Fellow of the Institute of Actuaries and a Chartered Enterprise Risk Actuary. Eithne was previously Chief Executive and Chief Financial Officer of City of Westminster Assurance, and is currently a Director of Countrywide Assured and LGPS Central. Eithne also acts as a consultant and trainer to financial services companies.

*Oliver Peterken*
Non-Executive Director - Independent

Oliver joined the Board in May 2016 and is Chair of the Risk Committee.

Oliver is Deputy Chairman of the Willow Foundation and is a non-executive Director of MS Amlin plc and chair of their Risk and Solvency Committee, as well as a non-executive Director of UK Export Finance. Previously Oliver was Chief Risk Officer at BUPA UK and at Aspen Insurance Holdings and before that held various senior roles at Willis and the Prudential.

## Corporate Governance Report (continued)

### The Board of directors (continued)

*Marion Saunders*
Non-Executive Director – Independent

Marion was appointed a non-executive Director in 2010. Marion is currently a member of the Information Rights, Mental Health and Social Security Tribunals. She is also a partner at the Health Care Professions Council. Until September 2018, Marion was the Senior Independent Director and Deputy Chair of the NHS Norfolk and Suffolk Foundation Trust. She has previously been a lay member of the Chartered Insurance Institute Council and chaired adult and children Safeguarding Boards. Marion chaired a Primary Care Trust for seven years following 25 years in local government where she held branch officer posts within NALGO. Marion is a retired UNISON member.

*Tony Woodley*
Non-Executive Director – Unite Representative

Tony was appointed to the UIA Board in February 2014 and is the representative for Unite, galvanising UIA's tie-in to the trade union. Tony has extensive experience within the union movement and was instrumental in the formation of Unite, at the forefront of negotiations with his union (TGWU) and Amicus. Tony is still heavily involved in the automotive industry and is a member of the influential Automotive Council UK, a government body designed to improve inward investment and create jobs in the UK.

### Statement of compliance with the Association of Financial Mutuals Annotated Corporate Governance Code

The Board supports the principles of good corporate governance and is committed to maintaining a high standard of compliance with the Association of Financial Mutuals Annotated Corporate Governance Code, in the best interests of its members.

The Board considers that throughout the year ended 31 December 2018, the Society has applied the relevant principles and complied with the relevant provisions of the Association of Financial Mutuals Annotated Corporate Governance Code.

### Role of the Board

The role of the Board is to set and manage the strategy for the Society in a manner that upholds the vision of the organisation and to deliver the maximum value to the Society for the benefit of its members, whilst complying with the relevant regulatory requirements, and that the Society meets the rules and has the highest corporate governance standards.

The Board usually has six regular formal meetings in a year but other meetings are convened as required to allow the Board to review the Society's strategy and to agree the plans and budget for the forthcoming year.

### Board's reserved powers

The Statement of the Board's Reserved Powers is set out in the Society's Charter and relates in the main to factors affecting the long-term strategy of the Society, while day-to-day decisions are delegated to the Executive Directors. These powers are set out below.

The Board reserves itself to decisions that determine:

- The long-term prosperity, viability, security and reputation of the Society;
- Policies governing the way the Society is perceived and treats others;
- Relations with stakeholders;
- Policies covering material financial matters and commitments, statutory obligations, compliance, probity and ethical matters;
- Matters concerning the Board and senior management; and
- Delegated authority levels.

### Insurance

The Society has a Directors' and Officers' insurance policy covering any potential legal actions against the directors arising in the performance of their duties with an aggregate limit of £5 million. This cover was in force during the year and as at the date of signing this report.

## Corporate Governance Report (continued)

### Chairperson and Chief Executive Officer (CEO)

The roles of Chairperson and CEO remained separate throughout the year and their respective responsibilities have been agreed by the Board. The Chairperson's main responsibility is to lead and manage the work of the Board, to ensure it operates effectively, fully managing its responsibilities and ensuring the effective engagement and contribution of all Directors. The Chairperson encourages and promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. Responsibility for the day-to-day management of UIA is delegated to the CEO, supported during 2018 by the Finance Director and acting interim Finance Directors, and other senior managers within the Society.

### Non-executive directors

At the start of the year, the Board comprised of the non-executive chairperson plus seven non-executive directors and one executive director. Following the appointment of John Nickson as finance director and the Society's secretary on the 26 June 2018, the Board comprises of the non-executive chairperson, seven non-executive directors and two executive directors.

The Society has six non-executive directors who fall within the definition of "independent" as outlined in the Annotated Combined Code.

The Board believes that it functions effectively and efficiently and is of an appropriate size to provide a balance of skills and experience, manage conflicts of interest and allow changes in composition without undue disruption. It also believes that it was able to provide leadership and give direction without any imbalance that may have allowed one individual or group to dominate decision-making.

The Board regularly reviews its own balance, diversity, and effectiveness to meet the Society's requirements and business strategy.

The Board has appointed a Senior Independent Director as required by the Code, to provide an alternative point of contact to the Chairperson, and Executive Directors, for members who have concerns that cannot be addressed through the normal channels. The Senior Independent Director also leads the appraisal of the Chairperson and the Board.

### Board appointments and re-election

All Board appointments are subject to a rigorous process instigated by the Nominations and Remuneration committee, and ratified by the Board.

All Non-Executive Directors receive a full, formal and tailored induction on joining the Board.

All Directors are subject to election by the members at the Annual General Meeting following their appointment. They are required to seek re-election every three years following their first election. Before being appointed as a new Director, an individual is required to provide details of their current other commitments for review to ensure that they can carry out their role effectively and efficiently. In addition, all Directors are required to be notified to the Prudential Regulation Authority and Financial Conduct Authority, with roles, such as the Chairperson and certain Committee Chairs requiring prior approval before they can operate as a Director or Chairperson.

### Board performance evaluation and training

Members of the Board have participated in in-house training activities covering our business transformation programme and regulatory and compliance matters.

### Information and support

All Directors are authorised to seek, at the Society's expense, appropriate professional advice which enables proper discharge of their collective responsibilities.

### Board diversity policy

At the April 2018 Board meeting, the Board agreed a diversity policy. It was agreed that the Board is fully committed to the elimination of unlawful and unfair discrimination and values the differences that diverse individuals brings to the organisation, and also the Board of UIA.

The Board will not discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. It will not discriminate because of any other irrelevant factor and will build a Board culture that values meritocracy, openness, fairness and transparency.

## Corporate Governance Report (continued)

### Duty to prepare accounts

The Directors acknowledge their responsibilities for preparing accounts and a full statement of Directors' Responsibilities is set out on page 23. These narrative statements, together with the Consolidated Statement of Profit and Loss, the Consolidated Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the accounts, provide relevant and proportionate detail to our members in order for them to assess business performance and business strategy. The Directors also consider that this annual report and accounts together, taken as a whole, represent a fair, balanced and understandable view of the business at the present time and provides the information necessary for a proper assessment of the performance of the Society.

### Going concern and future viability

*Going concern*
The Strategic Report provides an overview of business performance, together with the Society's key performance indicators in respect of the year ended 31 December 2018. The Strategic Report also provides detail with regard to the Directors' assessment of the major risks and uncertainties facing the business in the future.

We have adopted the going concern basis in respect of the preparation of the accounts in respect of the year ended 31 December 2018 as we have adequate financial resources in order to meet our liabilities as they fall due. We have total assets of £73.2m including investment and cash assets of £55.2m. Our unaudited fourth quarter reported Solvency Capital Ratio was 194% as at 31 December 2018.

Based on a review of the strategic plan and other financial reports the Directors have a reasonable expectation that the Society has adequate resources to continue in operation for a period of at least 12 months from the date of approval of the Reports and Accounts.

*Future viability*
As described in the Strategic Report, we have considered the principal risks and uncertainties facing the Society, including those that impact the Society's solvency, liquidity and profitability, as shown in the Society's Risk Register. An assessment of the appropriate period to consider the Society's future viability was carried out and the Audit Committee recommended to the Board that we continue to use a period of three years as there was no material change to our confidence in our business plan and our solvency forecasts as adopted through the Own Risk and Solvency Assessment (ORSA) process, since the previous assessment. .

Our ORSA forecasts covering an initial 3 year period, and subsequently an extended 5 year period to 2022, were stress tested under the following conditions:

- Equities drop by 30% combined with pension liability shock of £5m
- Economic shock (Brexit no-deal worst case plus defaults): All credit ratings drop one EIOPA quality step (equivalent to 3 rating notches) whilst corporate bonds below BBB+ default and Equities fall 30%
- £15m windstorm + £5m flood + £1m attritional claims shock + largest reinsurer defaults
- Reinsurer of one of our add-ons insurances default
- Loss of a significant partners + sharp decline in retention rates on a selected portfolio over business plan horizon.
- Loss of major trading partner.
- Sustained COR at 120%, due to a combination of small events and poor underwriting
- Renewal book purchase providing an additional 10k policies on a basis similar to our existing affinities, with on-boarding costs of £0.5m
- Operational Risk Scenario: Assume office fire and need to implement disaster recovery + high claim levels

Having reviewed the business plans and underlying assumptions on revenue growth, claims ratios and expenses, including the Society's solvency under normal and the individual stressed conditions described above prior to any management actions that would be taken over the period, the Directors have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the next three years.

## Corporate Governance Report (continued)

### Risk management and internal controls

The Society is committed to high standards of risk management and internal control. The Board is accountable to the members of the Society for ensuring that an appropriate system of internal control is maintained, and for reviewing its effectiveness. Taking account of the limitations in any system of control, the system is designed to limit rather than eliminate the risk of failure and, as such, can only provide reasonable but not absolute assurance against material misstatement or loss.

During 2018 and up to the date of approval of the annual report, the Society has operated a system of internal control which provides reasonable assurance of effective and efficient operations covering all controls including financial and operational controls, and compliance with laws and regulations.

Processes are in place for identifying, evaluating and managing on an ongoing basis, through the systems of risk management and internal controls, the risks facing the Society. The processes include:

- Board discussion and approval of the Society's strategic objectives and plans, and the risks to achieving them;
- Board review of performance and approval of budgets;
- Regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- Review by the Risk Committee of any incidents of fraud, suspected fraud, material error or misstatement, and the controls in place to protect the Society against these risks;
- Regular reviews by the Audit Committee of the scope and results of internal audit and compliance work, and of the implementation of recommendations;
- The Audit Committee reviews the scope of work undertaken by the external auditors and any significant issues arising from them;
- The Audit Committee reviews accounting policies; and
- The Risk Committee and the Board consider the key risks facing the Society, as documented in the risk register and of the effectiveness of the controls in place to mitigate their impacts.

The internal control system is monitored and supported by the Internal Audit function that reports to the Audit Committee on the Society's operations. During 2018, the information received and considered by the Audit Committee provided assurance that there were no material control failures.

The Board has put in place an organisational structure with formally defined roles and responsibilities. Operational responsibility rests with the CEO and devolves through the executive structure with clearly defined levels of authority. There are established procedures for planning, approval of capital expenditure, information and reporting systems, and for monitoring the Society's business and performance.

These include:

- A governance framework including terms of reference for the Board and its committees;
- A clear organisational structure;
- Documented apportionment of responsibilities across the Society;
- Processes for assessing the adequacy and effectiveness of internal controls and for ensuring that these remain appropriate to the scale and complexity of activities;
- Detailed financial controls to safeguard assets from inappropriate use or loss;
- Monthly monitoring of key performance indicators against plans for the year;
- Detailed framework of operating policies and procedures including risk management and control standards;
- Recruitment policies to select employees of the necessary calibre and experience to fulfil their responsibilities;
- Clear roles and accountabilities with regular performance reviews; and
- A whistle blowing procedure to enable staff to raise concerns in confidence.

The Board actively encourages a culture of continuous improvement to ensure systems of control are maintained.

As part of this process, managers of the operational areas and of each major project are required to identify the risks, the probability of their occurrence, the impact if they occur and the actions being taken to manage these impacts to the desired level.

Managers are required to monitor and report on the key risks in their areas, highlighting whether these are stable, increasing or decreasing, as well as maintaining a risk log providing details of significant incidents and loss events. A consolidated report is submitted to every meeting of the Risk Committee providing an analysis of risks reported in the period, together with all significant changes to the Society risk register.

## Corporate Governance Report (continued)

### Risk management and internal controls (continued)

The Board confirms that there has been in place for the year under review an ongoing process for identifying, evaluating and managing the risks faced by the Society that are significant to the achievement of its business objectives.

In light of the above, the Board has made an assessment of the effectiveness of its system of governance, risk management and internal control and concluded that it is appropriate for its size and complexity and no significant weaknesses have been identified.

We present our principal risks and uncertainties within our strategic report and our exposures to price, credit, liquidity and cash-flow in Note 4 to the Reports and Accounts.

### Internal audit function

During the year under review, our internal audit function remained outsourced to RSM.

Internal audit reviews are scheduled using a risk-based approach, in accordance with a three-year audit cycle. The risk based approach concentrates on those areas that are considered higher risk, derived from the Society's risk register, through discussions with senior management and the Chair of the Audit Committee, and through the Internal Auditor's own independent assessment. The Internal audit function reports directly to the Chair of the Audit Committee.

### Annual general meeting (AGM)

The Board believes that it is important to obtain the views of its members and understand any issues which may concern them. The Society gathers valuable feedback from members using questionnaires and surveys. The AGM is another opportunity for the Society to communicate with members. The Directors attend the AGM and members have the opportunity to ask questions during the meeting and to meet Directors following the conclusion of the formal part of the meeting.

The 2019 AGM is being held on Monday 24th June 2019 at 1 pm in the Aston Suite, The Holiday Inn Stevenage, St. Georges Way, Stevenage, Hertfordshire, SG1 1HS. Formal notices will be issued to members in due course.

At the 2018 AGM, a number of resolutions were voted on as below:

| Resolution | % for |
|---|---|
| • To receive the annual report of the Board, the auditor's report and the audited financial statements for the year ended 31 December 2017 | 98.66 |
| • To approve the remuneration report for the year ended 31 December 2017 | 96.26 |
| • To re-appoint Deloitte LLP to be auditors of the Society, to hold office until the next Annual General Meeting, and to agree that their remuneration will be determined by the Board | 95.87 |
| • To re-elect Eithne McManus as a member of the Board | 98.05 |
| • To suspend rule 72 of the Society's rules in respect of Peter Dodd, and to re-elect him as Chairperson of the Board for the period 26th June 2018 until the Annual General Meeting in 2020 | 95.27 |
| • To re-elect Jon Craven as a member of the Board | 97.87 |

### Corporate culture

The Board actively supports a strong and open ethical corporate culture where colleagues can act and speak openly about any subject which affects them. The Society has a whistle-blowing policy and supports the development and enhancement of other culturally minded policies as part of the Human Resources development project. During 2018 the Society engaged with an external party to undertake a colleague engagement survey following on from the survey conducted during 2017. The results of this latest survey are being examined by the Board and executive management. We have committed to our colleagues that a further survey will be undertaken at the end of 2019.

### Regulation

The Board is very mindful of the expectations of its two regulators, the PRA and the FCA. It fosters and maintains a culture of regulatory awareness and openness throughout the Society and is committed to operating all aspects of the business in a compliant fashion.

### Environmental

The Board is aware of its environmental foot print and impact on the local economy. We consider ourselves to be a significant employer in the local economy.

## Corporate Governance Report (continued)

### Board committees

The Board has established Committees to deal with certain functions in detail. The Terms of Reference of the committees are detailed in the Board Charter which is available on the Society website. Details of the Board Committees are as follows:

### Attendance of Directors at 2018 board and committee meetings

| | Board | Audit Committee | Risk Committee | Nominations and Remuneration Committee |
|---|---|---|---|---|
| Director | Meetings attended | Meetings attended | Meetings attended | Meetings attended |
| Bob Abberley | 8 (8) | 2 (3) | - | 3 (3) |
| Jon Craven | 8 (8) | 5 (5) | 5 (5) | 3 (3) |
| Peter Dodd | 8 (8) | 5 (5) | 5 (5) | 3 (3) |
| Tim Holliday | 8 (8) | 5 (5) | 5 (5) | 1 (1) |
| Lucia McKeever | 6 (8) | - | 3 (3) | 3 (3) |
| Eithne McManus | 8 (8) | 5 (5) | 5 (5) | 3 (3) |
| John Nickson (including attendance as interim Finance Director) | 8 (8) | 5 (5) | 5 (5) | 3 (3) |
| Oliver Peterken | 8 (8) | 5 (5) | 5 (5) | - |
| Marion Saunders | 6 (8) | 5 (5) | - | 2 (2) |
| Tony Woodley | 8 (8) | - | 2 (3) | 3 (3) |

The number in brackets represents the number of meetings that the Director was eligible to attend during the year.

The chair of the Board is Peter Dodd, and the chair of the Audit Committee is Eithne McManus. The chair of the Risk Committee is Oliver Peterken. The chair of the Nominations and Remunerations Committee changed from Peter Dodd to Bob Abberley on 26th March 2018.

Changes to Directors in the year are noted in the Directors' report on page 11.

### Audit committee

The Audit Committee presents a separate report on Page 20.

### Risk committee

The Committee met five times in 2018 and is chaired by Oliver Peterken.

The Committee assists the Board in establishing, monitoring and amending the effectiveness and appropriateness of the Group's risk and management strategy and policies. At least once a year the Committee reviews the Risk Appetite and reports to the Board any recommendations including assessing the appropriateness of the Corporate Plan in the context of Risk Appetite. At each meeting it reviews the Risk Register to ensure that all material risks are included and assessed in accordance with the Risk Appetite and to ensure that for each risk a set of risk management processes and measures are in place to mitigate or minimise the impact of the risk identified. It reports to the Board any actions arising from the review of the Risk Register to be incorporated in the financial and operational plans as appropriate.

It reviews the Own Risk and Solvency Assessment (ORSA) policy and the ORSA itself, including having an input into the choice of stresses and scenarios that are considered as part of the ORSA and the appropriateness of the Standard Formula for the purposes of setting the Solvency Capital Requirement (SCR). The Committee encourages a culture of risk awareness throughout the Society. It provides advice on aspects of risk on request from the Board.

The Committee reports to the Board the outcome of each meeting and ensures that all members of the Board are fully aware of the output of the work of the Committee and the sensitivities or risks associated with the recommendations of the Committee.

The issues the Committee considered during the year under review included:

- Review and recommend for approval the ORSA;
- The Society's risk appetite statement;
- Review and monitor the risk management framework and internal controls systems;
- Review of committee effectiveness;
- Review of the commission disclosure statement; and
- Monitor and review of the investment strategy and investment management arrangements.

On 4 February 2019, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2018.

## Corporate Governance Report (continued)

### Nominations and remuneration committee

The Committee met three times in 2018 and is now chaired by Bob Abberley with effect from 26th March 2018. The responsibilities of the Committee include reviewing the Board's structure, size and composition, selecting and proposing to the Board suitable candidates for appointment as directors, and succession planning. The Committee considers the balance of skills, knowledge, experience, length of service, independence, diversity, gender, potential conflicts of interest and time commitment for all directors.

The Committee determines the remuneration policy and individual remuneration packages for directors. It reviews and approves changes to their annual salaries, performance award arrangements, fees, service contracts and other employment conditions.

Executive and non-executive directors' remuneration is externally benchmarked every 3 years, the last being in 2016. In the intervening years, their remuneration is increased at the same basic inflationary rate as those awarded to our colleagues.

On 28 March 2019, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2018.

By order of the Board

Jon Craven
Director
9 April 2019

## Audit Committee Report

### Membership

This Committee assists the Board in discharging its responsibilities for the integrity of the financial statements and for ensuring the effectiveness of systems of internal control. It also assists the Board in providing leadership, direction and oversight with regard to the Society's governance and regulatory policies and procedures, including those relating to compliance, financial malpractice and internal non-financial controls.

All members of the Committee are Non-Executive Directors and three members of the Committee have recent and relevant financial experience. Three Committee members have expertise in insurance, including one member with specific household general insurance experience

The Committee met five times during 2018. The committee invites a number of attendees to its meetings during the year, including the CEO, the Finance Director, the Head of Compliance, the external and internal auditors, the Chair of the Board and members of senior management. The committee also met separately with the internal and external auditors without executive directors or management present.

### Activity

The Committee is authorised to investigate any activity within its terms of reference. It monitors the integrity of the financial statements of the Society, reviewing the significant reporting judgements, in particular going concern, the adequacy of insurance technical provisions and the calculation and recognition of retirement benefit obligations contained in accounts. It reviews the Society's internal financial controls and the internal control and risk management systems.

On 4 February 2019, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2018.

### Significant issues considered by the Committee

The issues the Committee considered during the year under review included:

- An assessment of the significant estimates and judgements used by the Directors in preparing the financial statements including the technical provisions, the unexpired risk reserve and the assumption of going concern;
- An assessment of the method and assumptions used to determine the Pension Scheme liability in the financial statements;
- Solvency II financial reporting, and in particular whether or not the Society should continue to have an external audit of its Solvency and Financial Condition Report, following the publication by the Prudential Regulatory Authority of 'PS25/18 Solvency II:External audit of the public disclosure requirement' which lifted this requirement for smaller firms
- The service provided by the external auditor, and the external audit management letter
- The compliance monitoring plan, and regular compliance reports
- The internal audit plan, the main Internal Audit findings and progress throughout the year in addressing these findings.
- In addition, the committee carried out a quarterly review of the technical provisions, and progress in refining the methodology used.

### Internal audit

Over the course of the year, the Committee monitored and reviewed the effectiveness of the Society's internal audit function, reviewed and approved the plan for the following year and considered all material findings and recommendations raised in respect of specific audits. During 2018, the manager of any area which was subject to an internal audit review was invited to attend the meeting at which the review report was discussed, to assist the Committee in understanding the findings and recommended actions.

In addition, the Committee reviewed the effectiveness of RSM, the Internal Audit service provider, and concluded that it played an effective and important role in the overall control framework.

### External audit

Including this year end, our external auditor, Deloitte, has audited six sets of financial statements for us, following a tender process in 2013. The Committee reviewed the quality of the service provided and concluded not to retender for the external audit service at this stage.

Our audit partner, David Heaton has performed this role for five years, and hence will be stepping down from the audit once the 2018 year-end process has been completed. The committee would like to thank David for his work for us over the past five years.

E McManus
Chair of the Audit Committee 9 April 2019

## Directors' Remuneration Report

### Remuneration policy for executive directors

The policy is that the remuneration for executive directors should reflect performance and enable the Society to attract, motivate, and retain suitably qualified individuals.

### Salaries

Base salaries are reviewed tri-annually using external consultants. This was last carried out in 2016 and the next review is in 2019. In the intervening years, subject to the approval of the Nominations and Remuneration committee, the policy is to increase base salaries at the same basic inflationary rate as the Society's colleagues.

### Variable pay

*Annual bonus*
Executive Directors are eligible to participate in an annual performance-based, cash performance award scheme. The Committee reviews and agrees performance award targets and levels of eligibility annually. The performance award is based on two factors: overall underwriting performance and on achievement of a set of personal objectives, which directly support the business plan. The first factor is designed to pay out a maximum of 5% of base salary and there is a threshold below which no performance award is paid. Total awards for exceptional performance will not exceed 35% for the CEO and 20% for the Finance Director. No awards are to be made in respect of the 2018 year financial year.

*Transformation Incentive Plan*
The Transformation Incentive Plan is a three year scheme covering the period 2018 to 2020 and is available to executive directors. Non-executive directors are not eligible to participate in the scheme. The scheme will be settled at the end of the three year period in April 2021.

There are two targets, the bonus target and a higher maximum bonus target. The target bonus and maximum bonus opportunity awards as a % of salary are as follows:

| | Bonus target | Maximum bonus target |
|---|---|---|
| Chief executive officer | 40% | 80% |
| Executive directors | 24% | 48% |

There are 4 measures used that are linked to our transformation incentive plan:

- Combined operating ratio
- Solvency capital requirement
- Colleague engagement survey
- Customer satisfaction measures

All measures need to be successfully met before any award is made and the bonus target and bonus opportunity is split equally across all 4 measures. The measurements are taken for the 2020 financial year. The maximum amount that can be awarded will not exceed 50% of annual salary over the three year period. No awards have been accrued for in respect of the 2018 financial year.

### Pension

Executive directors are eligible to be members of UNISON's Staff Pension Scheme, which is a defined benefit plan with a pension paid on retirement based on salary and length of service. Contributions of 9.1% were made in 2018 by way of salary sacrifice by the directors that elected to join the scheme, and a further 25% by the Society. Additionally, social security taxes associated with the salary sacrifice are contributed. Future contributions rates are disclosed in Note 30: Retirement benefit obligations. A director who doesn't join the scheme is eligible for a pension allowance. The Society provides a lump sum benefit of four times basic salary in the event of death in service to executive directors, either through the scheme or independently.

### Other benefits

Executive directors are provided with a car or receive a car allowance equivalent in value to the maximum permitted lease cost, plus insurance and servicing costs. The maximum permitted value varies with the role. In addition executive directors are eligible to participate in the Society's Healthcare Cashplan arrangement which is run by Westfield Heath.

All executive directors have contracts of employment incorporating their terms and conditions that are normally terminable by either party giving six months' notice.

| | J Craven £ | J Nickson £ |
|---|---|---|
| Salary and Fees | 155,754 | 75,833 |
| Pension and travel allowance | 37,114 | 5,600 |
| Other benefits | 560 | 1,879 |
| **Total 2018** | **193,428** | **83,312** |
| Total 2017 | 188,188 | Nil |

Prior to his appointment as Director, John Nickson acted as interim Finance Director. His remuneration during that period was £85,680. During the year John Nickson accrued pension benefits amounting to £1,220 per annum (2017:£nil) in the Society's defined benefit pension scheme payable at normal retirement age.

## Directors' Remuneration Report (continued)

### Remuneration policy for non-executive directors

Fees for Non-Executive Directors are reviewed annually by the Nominations and Remuneration Committee with changes normally effective from 1 January. Fees are designed to recognise their responsibilities and are reviewed using external third-parties on a tri-annual basis. This was last carried out in 2016. In the intervening years, subject to the approval of the Nominations and Remuneration committee, the policy is to increase base salaries at the same rate as the Society's colleagues.

The policy is to allow discretion to accommodate the need to attract different skills, experience and knowledge. Fees comprise a basic annual fee, paid in monthly instalments. Fees are neither pensionable nor performance-related and Non-Executive Directors do not participate in any bonus schemes. The basic salary for the Chairperson is £47,427. The basic salary for the Non-Executive Directors is £28,035 (2017: £27,485), with industry specialist Non-Executive Directors receiving £31,618. Committee chairs are paid an additional £3,162 in recognition of their additional responsibilities. If Non-Executive Directors and chairs of Committee are appointed or resign during the year, then a pro-rata fee is applied.

| | **Salary and fees 2018 £** | Salary and fees 2017 £ |
|---|---|---|
| Peter Dodd | **48,202** | 49,080 |
| Bob Abberley | **30,422** | 27,485 |
| Timothy Holliday | **32,935** | 30,998 |
| Lucia McKeever | **31,197** | 34,101 |
| Eithne McManus | **34,780** | 34,352 |
| Oliver Peterken | **34,780** | 34,098 |
| Marion Saunders | **29,879** | 30,585 |
| Eleanor Smith | **-** | 21,533 |
| Tony Woodley | **28,035** | 27,485 |
| Total | **270,230** | 289,717 |

## Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. The Co-operative and Community Benefit Societies law, as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 (the Regulations) and the Companies Act 2006 require the Directors to prepare financial statements for each financial year. In accordance with the Regulations the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under the Regulations 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 Society and of the profit or loss of the Society for that period. In preparing these financial statements, the Directors are required to:

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

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

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

J Craven
9 April 2019

# Independent Auditor's Report to the Members of UIA (Insurance) Limited

## Report on the audit of the financial statements

### Opinion

**In our opinion the financial statements of UIA (Insurance) Limited (the 'Society') and its subsidiaries (the 'group'):**

- **give a true and fair view of the state of the group's and of the Society's affairs as at 31 December 2018 and of the group's loss for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the Co-operative Community Benefit Societies Act 2014 and the Insurance Accounts Directives (Miscellaneous Insurance Undertakings) Regulation 2008.**

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and Society balance sheets;
- the consolidated and Society statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the Society 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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independent Auditor's Report to the Members of UIA (Insurance) Limited (continued)

### Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>• *Valuation of technical provisions*<br>• *Valuation of defined benefit pension scheme*<br>• *Revenue recognition*<br>Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with . |
| **Materiality** | The materiality that we used for the group financial statements was £324,000 which was determined on the basis of 1.5% of net earned premium. |
| **Scoping** | Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement for all entities in the group was performed directly by the group audit engagement team. |
| **Significant changes in our approach** | There have been no significant changes to our audit approach from either the prior year or our audit plan. |

### Conclusions relating to going concern, principal risks and viability statement

**Going concern**
We have reviewed the directors' statement in note 2.1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the company, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

**Principal risks and viability statement**
Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the Society's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 8 and 9 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 15 that they have carried out an assessment of the principal risks facing the group, including those that would threaten its solvency, liquidity or profitability; or
- the directors' explanation on page 15 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

## Independent Auditor's Report to the Members of UIA (Insurance) Limited (continued)

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

| Valuation of technical provisions | |
|---|---|
| **Key audit matter description** | Insurance reserving for Household Incurred But Not Reported (IBNR) and specific loss events such as floods and fire, or any weather related events, remains the largest single area requiring significant management judgement. A small change in key assumptions could result in a material change in the financial statements and hence represents the key opportunity for management to manipulate the financial results and is considered a fraud risk.<br><br>We have placed particular focus on the subsidence peril and any change in management's assumptions in light of recent experience. In addition, we will also focus on the assumed split between aggregator and non-aggregator channels within the statistical reserves and how this is reflected in the margin and unexpired risk reserve.<br><br>The assessment of the calculation of the insurance technical provisions for claims outstanding requires management to make significant judgements in respect of the quantum of the ultimate cost of settling claims as set out in the accounting policy for claims incurred in note 2 to the financial statements. Note 3 to the financial statements highlights the critical accounting judgements and key sources of estimation uncertainty, where this matter is also discussed.<br><br>The total reserve for gross claims outstanding was £13.9m at 31 December 2018 (2017: £12.6m) as set out in note 22. |
| **How the scope of our audit responded to the key audit matter** | To address this key audit matter, we:<br>• evaluated the design and implementation of controls around the reserving process;<br>• checked that the reserving re[orts align to the data provided by the Societyand tested the underlying data used in the reserving process;<br>• utilising our actuarial experts, challenged the methodology and significant assumptions inherent within the household claim reserves, in particular the loss ratio and the assumptions for the unexpired risk reserve estimation, and evaluated the level of prudency applied;<br>• reviewed the 2018 settlement experience for previous years' claims against assumptions made in the prior year to assess management's level of accuracy in predicting the uncertainties considered in calculating technical reserves; and<br>• reviewed the disclosures in the financial statements in respect of any significant changes in accounting estimates and checked for compliance with accounting standards. |
| **Key observations** | Based on the audit procedures performed, we concluded that the technical provisions and the disclosures in the financial statements are appropriate. |

## Independent Auditor's Report to the Members of UIA (Insurance) Limited (continued)

| Valuation of defined benefit pension scheme | |
|---|---|
| **Key audit matter description** | Employees of the Group are eligible to join the defined benefit scheme of UNISON, which is a multi-employer scheme. There are key actuarial assumptions that are applied by management in estimating the pension deficit to be recognised in the financial statements, particularly in the allocation of the Group's share of the scheme assets and liabilities. These are set out in the accounting policy for pension commitments in note 2 to the financial statements.<br><br>These assumptions are particularly critical as a small change in key assumptions could result in a material change in the financial statements" The gross liability balance is £37.1m (2017: £40.9m). The net deficit at 31 December 2018 was £8.5m (2017: £10.3m) as set out in note 30. Note 3 to the financial statements highlights the critical accounting judgements and key sources of estimation uncertainty, where this matter is also discussed. |
| **How the scope of our audit responded to the key audit matter** | To address this key audit matter, we:<br><br>• evaluated the design and implementation of controls around the pension review process, including meeting with senior management to discuss the pension monitoring and review process over the pension fund managers and review of the FRS 102 reports from the external actuary;<br>• challenged and benchmarked key actuarial assumptions used individually and in aggregate against industry standards using our pension actuarial experts;<br>• considered the sensitivity of key assumptions by reviewing assessments of variability and uncertainty; and<br>• tested the valuation of the Society's share of the pension scheme assets by reviewing scheme membership data and challenged the allocation methodologies. |
| **Key observations** | Overall, based on market conditions at 31 December 2018, the assumptions used in determining the Societys' share of the pension liability are reasonable in isolation and in aggregate. |

## Independent Auditor's Report to the Members of UIA (Insurance) Limited (continued)

| Revenue recognition | |
|---|---|
| **Key audit matter description** | Premium income is recognised over the life of the respective policy on an accrual basis, with an unearned premium provision representing the portion of premiums relating to the unexpired coverage of the policy in force as at the year end date (calculated predominantly a daily basis or 24ths basis). This key audit matter relates to the risk that incorrect earnings patterns are applied to premiums under FRS 103 (for the general insurance business), leading to a potential misstatement of the split between earned and unearned premiums. This is considered a fraud risk. Management judgement is required to apportion revenue between the amounts earned and unearned during the year.<br><br>Net earned premiums were £21.6m in 2018 (2017: £21.4m) as set out in note 5 to the financial statements. The unearned premiums as at 31 December 2018 were £12.1m (2017: £12.7m) as set out in note 22 to the financial statements. The accounting policies applied are set out in note 2. |
| **How the scope of our audit responded to the key audit matter** | To address this key audit matter, we:<br><br>• evaluated the design and implementation of controls around the revenue recognition process;<br>• tested a sample of policies to verify the underlying data in the policy document against the premiums recorded in the accounting system to assess the accuracy and valuation of the household premium class of transaction;<br>• for third party business, reconciled the bordereaux against the general ledger balances to assess the completeness and accuracy of the premium income recognised in the financial statements;<br>• reviewed the earnings pattern for the financial year (being predominantly a daily basis or 24ths basis) and compared that with prior years for consistency; and<br>• performed a recalculation of the unearned premium reserve to evaluate whether earned premium had been recognised in the appropriate period. |
| **Key observations** | We concluded that the earning patterns applied by management and the resultant unearned premium reserves were reasonable. |

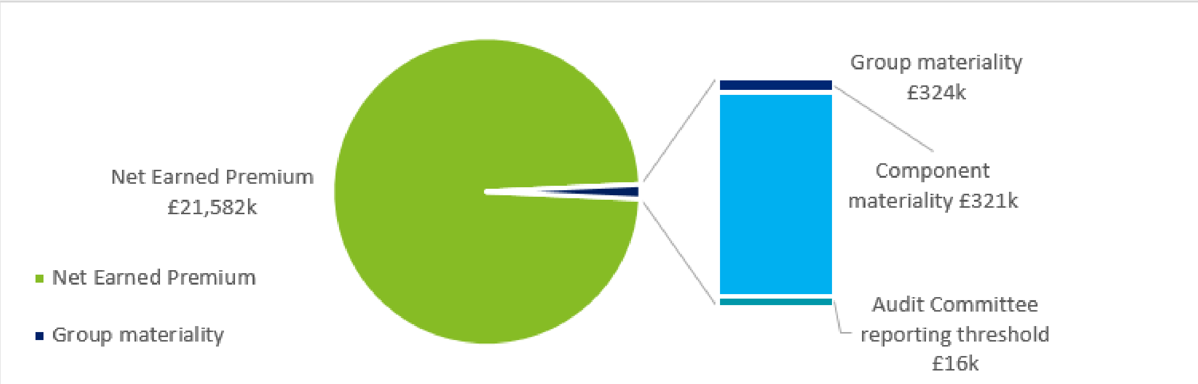
## Independent Auditor's Report to the Members of UIA (Insurance) Limited (continued)

### Our application of materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent Society financial statements |
|---|---|---|
| **Materiality** | £324,000 (2017: £317,000) | £321,000 (2017: £315,000) |
| **Basis for determining materiality** | 1.5% of net earned premium | 1.5% of net earned premium , capped at 99% of group materiality |
| **Rationale for the benchmark applied** | The net earned premium figure is considered an appropriate basis given the group and the Society continues to write new business, and the measure is stable and not subject to reserving fluctuations. Additionally, the performance of the group and Society is mainly measured by the scale of business written which is gross premium income less of any insurance ceded out via reinsurance. | |




We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £16,200 for the group (2017: £15,000) and £16,000 for the Society (2017: £15,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## Independent Auditor's Report to the Members of UIA (Insurance) Limited (continued)

### An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement for all entities in the group, which are all in one geographic location, was performed directly by the group audit engagement team.

There were no significant changes in scope from the prior year audit. All trading entities within the group are managed together from the same location and each were subject to a full scope audit executed at levels of materiality applicable to each individual entity which were lower than group materiality and capped at £321k.

We also tested the consolidation process at the parent entity level.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

***We have nothing to report in respect of these matters***

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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

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

## Independent Auditor's Report to the Members of UIA (Insurance) Limited (continued)

### Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

*Identifying and assessing potential risks related to irregularities*
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the Society's policies and procedures relating to:
- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the valuation of the insurance reserves and the application of earnings patterns in revenue recognition due to the estimates and judgements exercised by Management; and
- obtaining an understanding of the legal and regulatory frameworks that the Society operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Society. The key laws and regulations we considered in this context included the UK Companies Act and European Union (Insurance Undertakings: Financial Statements) Regulations 2015. In addition, compliance with terms of the company's regulatory solvency requirements were fundamental to the assessment of the company's ability to continue as a going concern.

*Audit response to risks identified*
As a result of performing the above, we identified the valuation of insurance reserves and revenue earnings patterns as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Independent Auditor’s Report to the Members of UIA (Insurance) Limited (continued)

### Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the our engagement letter

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

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

In the light of the knowledge and understanding of the group and of the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors’ report.

### Matters on which we are required to report by exception

*Adequacy of explanations received and accounting records*

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

***We have nothing to report in respect of these matters.***

### Other matters

*Auditor tenure*

Following the recommendation of the audit committee, we were appointed by the Society on 13 August 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2013 to 31 December 2018.

*Consistency of the audit report with the additional report to the audit committee*

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### Use of our report

This report is made solely to the Society’s members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society’s members those matters we are required to state to them in an auditor’s report and/or those matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society’s members as a body, for our audit work, for this report, or for the opinions we have formed.

D Heaton

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester
9 April 2019

## Consolidated Profit and Loss Account of the Society and its subsidiaries

*for the year ended 31 December 2018*
*Technical account*

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Earned premiums net of reinsurance** | | | |
| Gross earned premium | 5(a) | **25,157** | 23,949 |
| Reinsurance premium ceded | 5(a) | **(3,575)** | (2,521) |
| | 6 | **21,582** | 21,428 |
| Allocated investment return transferred from the non-technical account | | **170** | 445 |
| Other technical income | | **851** | 633 |
| **Total technical income** | | **22,603** | 22,506 |
| **Claims incurred net of reinsurance** | | | |
| Gross insurance claims and claims settlement expenses | 5(b) | **(19,214)** | (14,962) |
| Insurance claims and claims settlement expenses recoverable from reinsurers | 5(b) | **1,567** | 1,264 |
| | | **(17,647)** | (13,698) |
| Changes in other technical provisions net of reinsurance | 23 | **229** | (695) |
| Net operating expenses | 7 | **(12,722)** | (12,509) |
| **Total technical charges** | | **(30,140)** | (26,902) |
| **Balance on technical account for general business** | | **(7,537)** | (4,396) |

The notes on pages 42 to 73 form part of these financial statements.

## Consolidated Profit and Loss Account of the Society and its subsidiaries (continued)
*for the year ended 31 December 2018*
*Non-technical account*

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Balance on the general business technical account** | | **(7,537)** | (4,396) |
| Investment income | 10 | **1,161** | 3,168 |
| Changes in fair value of investments | 10 | **(1,353)** | 566 |
| Net investment expenses | 10 | **(7)** | (76) |
| Allocated investment return transferred to the technical account | | **(170)** | (445) |
| Net result of non-underwriting activities | 11 | **53** | 65 |
| Interest charge on defined benefit pension net liability | 25 | **(233)** | (282) |
| **Loss on ordinary activities before taxation** | | **(8,086)** | (1,400) |
| Tax credit / (charge) on loss on ordinary activities | 12 | **21** | (492) |
| **Loss for the financial year** | | **(8,065)** | (1,892) |

All of the income and expenditure relates to continuing operations and is attributable to the members.

The notes on pages 42 to 73 form part of these financial statements.

# UIA (Insurance) Limited

## Consolidated Statement of Comprehensive Income of the Society and its subsidiaries
*for the year ended 31 December 2018*

| | Notes | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|---|
| **Retained deficit for the year** | | **(8,065)** | (1,892) |
| Re-measurement of net defined benefit pension liability | 30 | **2,278** | 1,117 |
| **Total comprehensive expense for the year** | | **(5,787)** | (775) |

All results are derived from continuing operations and are attributable to the members.

The notes on pages 42 to 73 form part of these financial statements.

## Consolidated Balance Sheet of the Society and its subsidiaries

*as at 31 December 2018*

| | Notes | Group | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **£'000** | £'000 |
| **Assets** | | | |
| **Intangible assets** | 14 | **2,450** | 1,158 |
| **Investments** | | | |
| Financial investments | 15 | **50,933** | 60,743 |
| | | **50,933** | 60,743 |
| **Reinsurers' share of technical provisions** | | | |
| Outstanding claims | 17(a) | **1,698** | 2,146 |
| Unearned premiums | 17(b) | **731** | 2,269 |
| | | **2,429** | 4,415 |
| **Debtors** | | | |
| Arising out of direct insurance operations | | **10,650** | 11,505 |
| Other debtors | 18 | **505** | 597 |
| | | **11,155** | 12,102 |
| **Other assets** | | | |
| Tangible assets | 19 | **83** | 71 |
| Cash at bank and in hand | | **4,269** | 2,097 |
| | | **4,352** | 2,168 |
| **Prepayments and accrued income** | | | |
| Accrued interest | | **32** | 4 |
| Deferred acquisition costs | 20 | **668** | 1,073 |
| Other prepayments and accrued income | | **1,157** | 1,665 |
| | | **1,857** | 2,742 |
| **Total assets** | | **73,176** | 83,328 |

The notes on pages 42 to 73 form part of these financial statements.

## Consolidated Balance Sheet of the Society and its subsidiaries (continued)
*as at 31 December 2018*

| | Notes | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 21 | **1** | 1 |
| Profit and loss account | | **30,488** | 36,275 |
| **Total equity** | | **30,489** | 36,276 |
| **Technical provisions** | | | |
| Gross unearned premiums | 22a | **12,085** | 12,693 |
| Gross outstanding claims | 22b | **13,862** | 12,553 |
| Unearned commission | 22c | **412** | 417 |
| Other technical provisions | 23 | **745** | 975 |
| | | **27,104** | 26,638 |
| **Creditors** | | | |
| Arising out of direct insurance operations | | **3,510** | 3,551 |
| Arising out of reinsurance operations | | **1,492** | 3,316 |
| Other creditors including taxation and social security | 24 | **2,037** | 3,252 |
| | | **7,039** | 10,119 |
| **Provision for other risks** | | | |
| Provisions for pensions and similar obligations | 25 | **8,544** | 10,295 |
| **Total equity, reserves and liabilities** | | **73,176** | 83,328 |

Approved by the Board of Directors and authorised for issue on 9 April 2019 and signed on their behalf by:

Jon Craven
Director

The notes on pages 42 to 73 form part of these financial statements

# UIA (Insurance) Limited

## Balance Sheet of the Society
*as at 31 December 2018*

| | Notes | The Society | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **£'000** | £'000 |
| **Assets** | | | |
| **Intangible assets** | 14 | **2,450** | 1,158 |
| **Investments** | | | |
| Financial investments | 15 | **50,933** | 60,743 |
| Investment in group undertakings | 16 | **264** | 264 |
| | | **51,197** | 61,007 |
| **Reinsurers' share of technical provisions** | | | |
| Gross outstanding claims | 17(a) | **1,698** | 2,146 |
| Gross unearned premiums | 17(b) | **731** | 2,269 |
| | | **2,429** | 4,415 |
| **Debtors** | | | |
| Arising out of direct insurance operations | | **10,650** | 11,505 |
| Other debtors | 18 | **910** | 874 |
| | | **11,560** | 12,379 |
| **Other assets** | | | |
| Tangible assets | 19 | **83** | 71 |
| Cash at bank and in hand | | **3,979** | 2,023 |
| | | **4,062** | 2,094 |
| **Prepayments and accrued income** | | | |
| Accrued interest | | **32** | 4 |
| Deferred acquisition costs | 20 | **668** | 1,073 |
| Other prepayments and accrued income | | **645** | 1,123 |
| | | **1,345** | 2,200 |
| **Total assets** | | **73,043** | 83,253 |

The notes on pages 42 to 73 form part of these financial statements.

## Balance Sheet of the Society (continued)
*as at 31 December 2018*

| | Notes | The Society 2018 £'000 | The Society 2017 £'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 21 | **1** | 1 |
| Profit and loss account | | **30,339** | 35,670 |
| **Total equity** | | **30,340** | 35,671 |
| **Technical provisions** | | | |
| Gross unearned premiums | 22a | **12,085** | 12,693 |
| Gross outstanding claims | 22b | **13,862** | 12,553 |
| Unearned commission | 22c | **412** | 417 |
| Other technical provisions | 23 | **745** | 975 |
| | | **27,104** | 26,638 |
| **Creditors** | | | |
| Arising out of direct insurance operations | | **3,510** | 3,551 |
| Arising out of reinsurance operations | | **1,492** | 3,316 |
| Other creditors including taxation and social security | 24 | **2,053** | 3,782 |
| | | **7,055** | 10,649 |
| **Provision for other risks** | | | |
| Provisions for pensions and similar obligations | 25 | **8,544** | 10,295 |
| **Total equity, reserves and liabilities** | | **73,043** | 83,253 |

Approved by the Board of Directors and authorised for issue on 9 April 2019 and signed on their behalf by:

Jon Craven
Director

The notes on pages 42 to 73 form part of these financial statements.

## Statements of Changes in Equity
*for the year ended 31 December 2018*

### Consolidated Statement of Changes in Equity of the Society and its subsidiaries

| | Share capital £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|
| **At 1 January 2017** | 1 | 37,050 | 37,051 |
| Deficit for the financial year | - | (1,892) | (1,892) |
| Re-measurement of net defined benefit pension scheme liability | - | 1,117 | 1,117 |
| **At 31 December 2017** | **1** | **36,275** | **36,276** |
| Deficit for the financial year | **-** | **(8,065)** | **(8,065)** |
| Re-measurement of net defined benefit pension scheme liability | **-** | **2,278** | **2,278** |
| **At 31 December 2018** | **1** | **30,488** | **30,489** |

### Statement of Changes in Equity of the Society

| | Share capital £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|
| **At 1 January 2017** | 1 | 36,500 | 36,501 |
| Deficit for the financial year | - | (1,946) | (1,946) |
| Re-measurement of net defined benefit pension scheme liability | - | 1,117 | 1,117 |
| **At 31 December 2017** | **1** | **35,671** | **35,672** |
| Deficit for the financial year | **-** | **(7,610)** | **(7,610)** |
| Re-measurement of net defined benefit pension scheme liability | **-** | **2,278** | **2,278** |
| **At 31 December 2018** | **1** | **30,339** | **30,340** |

The notes on pages 42 to 73 form part of these financial statements.

## Consolidated Statement of Cash Flows of the Society and its subsidiaries
*for the year ended 31 December 2018*

| | Notes | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|---|
| **Cash generated from operating activities** | | | |
| Net cash flow used by operating activities before investment of insurance assets | 26 | **(5,703)** | (1,629) |
| Cash generated from investment of insurance assets | 26 | **3,582** | 5,425 |
| **Net cash (used in) / generated from operating activities** | | **(2,121)** | 3,796 |
| **Cash flow from investing activities** | | | |
| Purchase of intangible and tangible assets | | **(1,705)** | (1,041) |
| **Net cash used in investing activities** | | **(1,705)** | (1,041) |
| **Net cash (decrease) / increase in cash at bank and in hand** | | **(3,826)** | 2,755 |
| Cash and cash equivalents at beginning of year | | **17.108** | 14,353 |
| **Cash and cash equivalents at end of year** | | **13,282** | 17,108 |
| Cash at bank and in hand | | **4,269** | 2,097 |
| Short-term deposits presented within other financial instruments | | **9,013** | 15,011 |
| **Cash and cash equivalents** | | **13,282** | 17,108 |

The notes on pages 42 to 73 form part of these financial statements.

## 1. General information

UIA (Insurance) Limited is a Registered Society ("the Society") under the Co-operative and Community Benefit Societies Act 2014 and is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority to carry out non-life insurance business. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the strategic report on pages 4 to 10.

## 2. Accounting policies

### 2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the valuation of investments at fair value or at amortised cost, and in accordance with Financial Reporting Standards 102 & 103 (FRS 102 & 103) issued by the Financial Reporting Council. The Society is subject to the requirements of the Companies Act 2006 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the Strategic Report. The Strategic Report also describes the financial position of the Group, its cash flows and liquidity position, the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposure to credit and liquidity risk.

The Directors have a reasonable expectation that the Group 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 annual financial statements of accounting in preparing the annual financial statements.

### 2.2 Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Society and its subsidiary Companies made up to 31 December of each year. The acquisition method of accounting is adopted with assets and liabilities valued at fair values at the date of acquisition.

Results of subsidiaries acquired or disposed of are included in the consolidated profit and loss account from the effective date of acquisition or to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

### 2.3 Parent Society disclosure exemptions

UIA (Insurance) Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

### 2.4 Insurance classification

The Group'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 due under it 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 or incur losses in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

### 2.5 Revenue recognition

*Premiums written*
Insurance and reinsurance premiums written comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium provision, which represents the proportion of premiums incepted in prior periods and that relate to periods of insurance cover after the balance sheet date.

Unearned premiums are calculated over the period of exposure under the policy, on a daily basis, 24ths basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

*Other technical income*
Other technical income comprises of commissions receivable for the whole period of cover, adjusted for an unearned commission provision. Unearned commissions are calculated over the period of the policy to which it relates, on a daily basis or 24ths basis.

*Investment return*
Investment return consists of dividends, interest, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value assets. Investment return is allocated between the technical and non-technical accounts based on the return on assets and liabilities attributable to insurance and non-insurance activity.

*Interest income*
Interest income is recognised by applying the effective interest rate method, except for short-term receivables when recognition of interest would be immaterial.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

*Dividend income*
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

*Realised gains and losses*
The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

*Unrealised gains and losses*
Unrealised gains or losses represent the difference between the carrying value at the financial year-end and the carrying value at the previous financial year-end or purchase value during the financial year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the financial year.

### 2.6 Taxation

Current tax including United Kingdom Corporation Tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The taxation expense represents the sum of the tax currently payable and deferred tax.

United Kingdom taxation charged in the non-technical account is based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in the future have occurred at the balance sheet date.

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

### 2.6 Taxation (continued)

The carrying amount of deferred taxation assets is reviewed at each balance sheet 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 that asset is realised. Deferred tax is charged or credited in the profit and loss 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.

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

### 2.7 Intangible assets

*Software expenditure*
An internally-generated intangible asset arising from the Group's software development is recognised only if all the following conditions are met:

- an asset is created that can be identified (such as software);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Assets resulting from the purchase of software are initially measured at cost. Software is amortised on a straight-line basis over its estimated useful life, which is typically three to five financial years. Where no internally-generated asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

The impairment policy is set out in note 2.10 below.

### 2.8 Tangible fixed assets

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

| | |
|---|---|
| Computer equipment | 50% |
| Plant and machinery | 20% - 50% |
| Fixtures and fittings | 20% - 50% |

### 2.9 Retirement benefit costs

Employees are eligible to join the defined benefit scheme of UNISON, which is a multi-employer scheme. The disclosures required to be made under the provisions of FRS 102 are made in note 30. Employees of both UIA (Insurance) Limited and UIA (Call Centres) Limited are eligible to participate in the scheme

The Directors consider the scheme assets and liabilities attach solely to UIA (Insurance) Limited as the sponsoring employer and as such the scheme is accounted for as a defined benefit scheme within the parent Society's accounts and at group level.

The current and past service costs are included within operating expenditure. Net interest costs are included within investment income. Re-measurement of the net defined benefit liability is accounted for in the statement of comprehensive income. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained every three years and are updated at each balance sheet date. The resulting defined benefit scheme liability is shown within note 25.

### 2.10 Impairment of assets

Assets, other than those measured at fair value, are assessed for indicator of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the statement of profit and loss account as described below.

*Non-financial assets*
An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than he carrying value if no impairment had been recognised.

*Financial assets*
For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for the decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value if no impairment had been recognised.

### 2.11 Financial assets and liabilities

The Society's investments comprise debt and equity instruments, cash and cash equivalents, receivables and investments in subsidiaries.

*Recognition*
Financial assets and liabilities are recognised when the Society enters into the contractual provisions of the instrument.

*Initial measurement*
All financial assets and liabilities are initially recognised at the transaction price (including transactional costs), with the exception of any financial assets and liabilities that are measured at fair value through the profit and loss account (which is normally the transaction price less the transaction cost), or if the arrangement constitutes a financing transaction. If the arrangement constitutes a financing transaction then the financial asset or liability is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

*Fair value measurement*
Where available, fair value is taken as a quoted price of an identical asset in an active market. If a quoted price is not available, the price of a recent transaction for an identical asset is used as long as there has not been a change in economic circumstances. If there is no active market and no recent transactions and an identical asset on its own is not a good estimate of fair value, an estimate of the fair value is made using another valuation technique.

*Fair value estimate*
The fair value measurement used to value financial assets and financial liabilities held at fair value is categorised into a fair value hierarchy as follows:

FRS102 section 11.27 establishes a fair value hierarchy that prioritises the inputs to valuation methods used to measure fair value. The hierarchy is as follows:

Level 1: Fair value is measured using quoted prices of an identical asset in an active market. An active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions at an arm's length basis;

### 2.11 Financial assets and liabilities (continued)

Level 2: When quoted shares are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted; and

Level 3: If the market of the asset is not active and recent transactions of an identical asset on their own are not good estimates of fair value, the fair value is estimated using a valuation technique.

All our financial assets are held at Level 1 and there have been no transfers in or out of this level during the current year.

*Subsequent measurement*
Non-current debt instruments that are directly held which meet the following criteria set out under FRS 102 section 11.9 are measured at amortised cost using the effective interest method:

a) Returns to the holder are a fixed amount, or a fixed rate of return over the life of the instrument, or a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate, or some combination of such fixed and variable rates as long as both are positive;
b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods;
c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put back to the issuer before maturity are not contingent on future events other than to protect the holder against credit deterioration of the issuer, or a change in control of the issuer, or the holder or issuer, against changes in relevant taxation or law; and
d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provision described in (c).

Debt instruments that are payable and receivable within one year are measured at the undiscounted amount of the cash or other consideration expected to be paid or received net of impairment. Other debt instruments not meeting these conditions are measured at fair value through the profit and loss account.

Shares and other variable securities in unit trusts are measured at fair value through profit and loss.

Commitments to make and receive a loan that meet the conditions above are measured at cost less impairment.

Investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are measured at their fair value with changes in fair value being recognised in the statement of profit and loss when the shares are publicly traded or if their fair value can be measured reliably. All other such investments are measured at cost less impairment.

*Impairment of financial instruments measured at amortised cost or cost*
For a directly held instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

For an instrument measured at cost less impairment the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the entity shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. The Group recognises the amount of the reversal in the profit and loss account immediately.

### 2.11 Financial assets and liabilities (continued)

*Cash and cash equivalents*
Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities three months or less and bank overdrafts.

*Investment in subsidiaries*
In the Society balance sheet, investments in subsidiaries are measured at cost less impairment.

### 2.12 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease.

### 2.13 Insurance contracts

*Claims*
Claims consist of claims paid to policyholders, changes in the valuation of the liabilities arising on policyholder contracts and internal and external claims handling expenses, net of salvage and subrogation recoveries.

*Acquisition costs*
Acquisition costs comprise all direct and indirect costs arising from the sale of insurance contracts. Deferred acquisition costs are those proportions of costs which relate to periods after the balance sheet date. The deferred acquisition costs are calculated on the same basis as the unearned premium.

*Provision for outstanding claims*
Provision for the liabilities of non-life insurance contracts is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported (IBNR) at that date. The provisions are not discounted. Included in the provision is an estimate of the internal and external costs of the handling of the outstanding claims. Material salvage and other recoveries including reinsurance recoveries and recoveries from third parties where liability for loss exists are presented as assets.

Where significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business and subsidence claims, the ultimate cost of which may vary from the original assessment. Adjustments to the amounts of claims provisions established in prior financial years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.

*Unexpired risk provision*
A provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated based on information available at the balance sheet date.

*Liability adequacy*
At each reporting date the Group performs a liability adequacy test on its insurance liabilities less related intangible assets to ensure that the carrying value is adequate, using current estimates of cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the profit and loss account initially by writing off the intangible assets and subsequently by recognising an additional liability for claims provisions or recognising a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for business classes which are managed together.

### 2.14 Reinsurance

The Society enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outwards reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards insurance business being reinsured.

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when due.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contract and in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

### 2.14 Reinsurance (continued)

Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The impairment loss is recognised as an expense in the profit and loss account. The asset is impaired if objective evidence is available to suggest that it is probable that the Group will not be able to collect the amounts due from reinsurers.

### 2.15 Insurance receivables and payables

Receivables and payables arising under insurance contracts are recognised when due and measured at cost. No discounting is applied due to their short-term nature.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

***"BREXIT"***

The Society, as with all entities and individuals, is exposed to the uncertainties that may or may not arise following the UK leaving, deferring or remaining within the European Union. Critical accounting judgements and estimation uncertainties, as disclosed below, have been made assuming that Brexit does not have a significant destabilising effect. The Society's exposure to Brexit is disclosed fully in the Strategic Report on Page 5.

***Critical accounting judgements in applying the Group's accounting policies***

The critical accounting judgements applied by the Board are detailed below:

*Premiums and commission*

Written premiums, reinsurance premiums and underwriting commissions are earned evenly over the year on a 1/24$^{th}$ basis.

*Technical provisions*

Reserving for outstanding claims, claims incurred but not reported, and whether any management risk margins should be applied is a critical judgement and is described in note 2.13 above.

*Other technical provisions including unexpired risk provision*

A reserve is required where part of the Society's book of business is assessed to be loss making as its unearned premium reserve earns through to the following years accounting periods. This assessment takes into account loss ratio and expenses and is highly subjective. The assessment of this provision is judgemental with regard to whether a reserve is required and on what segment of business written.

***Key sources of estimation uncertainty***

The key source of estimation uncertainty is described below:

*Pensions*

The employer pension scheme is valued on actuarial basis. The Society is a small part of a much larger scheme and therefore assets and liabilities are valued in total and an assessment is made as to the Society's share of those assets and liabilities. The estimated proportion allocated to the Society is described in note 30.

In non-valuation years this apportionment is used to determine the pension scheme surplus or deficit.

*Technical provisions*

Reserving for outstanding claims, claims incurred but not reported, provision for future claims handling costs and the level of any management risk margin are areas of estimation uncertainty and is described in note 2.13 above.

### 4. Management of insurance and financial risk

The Society monitors and manages the risks relating to it through the Risk Committee and Board. A quarterly management information pack covering matters such as operational risks, complaints data, compliance monitoring plans and an update on regulatory matters and developments is presented to the Risk Committee and Board. Additionally, the Society maintains risk registers which are reviewed by the Risk Committee, and other reports are produced on an ad hoc basis as and when necessary for the Risk Committee and Board.

The Society considers its largest risk exposures to be:

- Market risk – due to exposure to spread risk from holding long-dated corporate bonds, and to equity risk from equities in the pension fund;
- Insurance risk – due to the uncertainty surrounding the timing, frequency and severity of household claims with more than half of which relates to the potential for catastrophe events; and
- Pension risk – due to the uncertainty surrounding the obligations to our share of the UNISON Defined Benefit Pension Scheme.

### 4.1. Insurance risk

The Society accepts insurance risk through its insurance contracts. The Society is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Society manages its risk via its underwriting and reinsurance strategy. Pricing is based on assumptions made by looking at trends and past experiences. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is used to reduce the effect of potential loss from individual large losses or events.

*Capital management*
From 1 January 2016 the measurement of our regulatory capital moved into the Solvency II regime. The Society has been calculating and reporting on this basis since then. The following table is a summary of our capital position as reported in our Solvency and Financial Condition Report:

| | **At 31 December** | |
|---|---|---|
| | **Unaudited 2018** £m | **Audited 2017** £m |
| Market risk | **9.9** | 15.7 |
| Counterparty default risk | **2.1** | 1.3 |
| Non -life underwriting risk | **9.8** | 10.7 |
| Operational risk | **0.8** | 0.7 |
| Loss absorbing capacity of deferred tax | **(0.3)** | - |
| Diversification credit | **(5.2)** | (6.0) |
| **Total solvency capital requirement (SCR)** | **17.2** | 22.5 |
| Total own funds | **33.4** | 39.0 |
| **Total surplus** | **16.2** | 16.5 |
| SCR coverage | **194%** | 173% |

## 4. Management of insurance and financial risk (continued)

### 4.1. Insurance risk (continued)

*Assumptions and sensitivities*
The risks associated with the household insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. We use several statistical and actuarial techniques on past claims development experience for estimating its liabilities, including chain ladder methods applied to:

- incurred claims amounts;
- paid data amounts;
- reported claim counts and average severities; and
- considering various categorisations of claims data.

We consider that the liability for claims recognised in the balance sheet is adequate but actual experience will differ from the expected outcome. In order to mitigate this risk, we hold a prudential margin of reserves above the Best Estimate.

We have carried out some sensitivity tests on the actual results for the year ended 31 December 2018 and these are set out below.

| | **2018** | **2017** |
|---|---|---|
| | £'000 | £'000 |
| **Balance on technical account for general business** | **(7,881)** | (4,396) |
| 5% Increase in loss ratio (79% - 84%) (2017: 62% - 67%) | **(9,225)** | (5,522) |
| Weather event in UK – industry loss £250m | **(8,861)** | (5,147) |
| 5% increase in expenses | **(8,748)** | (5,023) |

*Claims development tables*
The following tables show the development of our claims excluding non-specific prudential and management margins over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than ten years.

| **Analysis of claims development – gross** | **2018** £'000 | **2017** £'000 | **2016** £'000 | **2015** £'000 | **2014** £'000 | **2013** £'000 | **2012** £'000 | **Total** £'000 |
|---|---|---|---|---|---|---|---|---|
| Estimates of ultimate claims | | | | | | | | |
| End of accident year | 16,581 | 14,474 | 10,984 | 10,121 | 9,471 | 10,633 | 13,254 | |
| One year later | | 13,384 | 10,151 | 9,718 | 8,854 | 9,502 | 11,842 | |
| Two years later | | | 9,539 | 9,449 | 8,759 | 9,324 | 11,214 | |
| Three years later | | | | 9,094 | 8,639 | 9,239 | 11,390 | |
| Four years later | | | | | 8,310 | 9,681 | 11,594 | |
| Five years later | | | | | | 8,377 | 11,741 | |
| Six years later | | | | | | | 9,388 | |
| Current estimate of ultimate claims | 16,581 | 13,384 | 9,539 | 9,094 | 8,310 | 8,377 | 9,388 | |
| Cumulative payments to date | (9,167) | (11,954) | (9,008) | (8,822) | (8,101) | (7,870) | (9,201) | |
| In balance sheet | 7,414 | 1,430 | 531 | 272 | 209 | 507 | 187 | 10,550 |
| Liability in respect of earlier years | | | | | | | | 239 |
| Liability in balance sheet | | | | | | | | 10,789 |

## 4. Management of insurance and financial risk (continued)

### 4.1. Insurance risk (continued)

| Analysis of claims development – net | 2018 £'000 | 2017 £'000 | 2016 £'000 | 2015 £'000 | 2014 £'000 | 2013 £'000 | 2012 £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Estimates of ultimate claims | | | | | | | | |
| End of accident year | 6,506 | 13,882 | 10,814 | 9,497 | 9,027 | 9,560 | 11,273 | |
| One year later | | 13,269 | 9,953 | 9,037 | 8,593 | 8,384 | 9,716 | |
| Two years later | | | 9,474 | 8,778 | 8,481 | 8,064 | 9,336 | |
| Three years later | | | | 9,102 | 8,365 | 8,003 | 9,165 | |
| Four years later | | | | | 8,276 | 8,287 | 9,157 | |
| Five years later | | | | | | 8,333 | 9,194 | |
| Six years later | | | | | | | 9,342 | |
| Current estimate of ultimate claims | 15,394 | 13,269 | 9,474 | 9,102 | 8,276 | 8,333 | 9,342 | |
| Cumulative payments to date | (8,888) | (12,058) | (9,121) | (8,916) | (8,150) | (8,089) | (9,319) | |
| In balance sheet | 6,506 | 1,211 | 353 | 186 | 126 | 244 | 23 | 8,649 |
| Liability in respect of earlier years | | | | | | | | 20 |
| Liability in balance sheet | | | | | | | | 8,669 |

### 4.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as interest rates. Market risk arises due to fluctuations in both the value of the assets held and the value of liabilities. Risk is managed in line with the Society's risk appetite. The Society has established policies and procedures in order to manage market risk and methods to measure it.

#### 4.2.1 Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Society is exposed to interest rate risk from movements on financial investments that have a fixed interest rate. As the amount of financial investments exposed to this risk is £3.3m (2017: £3.3m) the Board does not consider this to be a significant risk to the Society.

#### 4.2.2 Equity risk

At the year-end we held £0.3m (2017: £0.3m) in equities or equity-based investments, being the Society's investment in subsidiaries. Under Solvency II, which is measured at Society not Group level, we are required to hold capital amounting to £0.1m (before portfolio diversification benefits) in respect of these assets in recognition of a potential fall in value.

### 4.3 Credit risk

The Society has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts owing in full when due. Areas where the Society is exposed to credit risk are:

- Reinsurers' share of insurance liability and amounts due from reinsurers in respect of claims already made;
- The risk of default in relation to corporate bond holdings;
- Amounts due from policyholders; and
- Deposits held with banks.

## 4. Management of insurance and financial risk (continued)

### 4.3 Credit risk (continued)

The carrying amount of financial and reinsurance assets represents the Society's maximum exposure to credit risk. There are no loans and receivables or insurance debtors due past 90 days and therefore none are considered impaired. No collateral is held or issued in respect of any financial assets or liabilities.

The Society monitors the credit risk in relation to its investment portfolio and reinsurance programme by monitoring external credit ratings for the investment and reinsurance assets held. Our potential exposure to any issues arising from Brexit are disclosed on Page 5 in the Strategic Report.

Reinsurance assets are reinsurers' share of outstanding claims and IBNR and reinsurance receivables. All reinsurers on the household programme are contracted to have a credit rating of A- or better. These are allocated below:

| **2018** | **AAA** | **AA** | **A** | **BBB** | **BB** | **B** | **CCC *** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Debt securities | 9,213 | 4,857 | 12,265 | 17,250 | 940 | 46 | 67 | 44,638 |
| Other investments | - | - | - | - | - | - | - | - |
| Deposits | - | - | 6,042 | - | - | - | - | 6,042 |
| Cash and cash equivalents | - | - | - | 296 | - | - | 4,269 | 4,565 |
| Reinsurance receivables | - | - | 447 | - | - | - | 1,251 | 1,698 |
| | 9,213 | 4,857 | 18.754 | 17,546 | 940 | 46 | 5,587 | 56,943 |

* includes unrated

| **2017 **** (see below) | **AAA** | **AA** | **A** | **BBB** | **BB** | **B** | **CCC *** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Debt securities | 1,093 | 3,620 | 13,749 | 15,359 | 2,615 | 61 | 11,822 | 48,319 |
| Other investments | - | - | - | 2 | - | - | - | 2 |
| Deposits | - | - | 9,045 | 3,009 | - | - | 8 | 12,062 |
| Cash and cash equivalents | - | - | - | 314 | - | - | 2,097 | 2,411 |
| Reinsurance receivables | - | 29 | 144 | - | - | - | 1,973 | 2,146 |
| | 1,093 | 3,649 | 22,938 | 18,684 | 2,615 | 61 | 15,900 | 64,940 |

* includes unrated

Note ** The 2017 disclosure has been restated to include subsidiary assets, fully reinsured assets and a correction of a security classification previously classified as "A" which is unrated. Additionally, the 2017 analysis used only one rating agency whereas 2018 uses three rating agencies which has resulted in a number of securities previously disclosed as "non-rated" being allocated an appropriate credit rating.

### 4.4 Liquidity risk

Liquidity risk is the risk that the Society cannot meet its obligations associated with its financial liabilities as they fall due. The Society has in place a liquidity management framework for the management of the Society's requirements.

The Society is exposed to liquidity risk from client insurance contacts. With regard to a catastrophic event there is liquidity risk arising from the timing difference between claim payment and recoveries from reinsurers. All claims are considered to be payable within one year from the balance sheet date, albeit we recognise some claims may in practice take longer to settle.

The Society has sufficient funds to cover insurance claims and in practice most of the Society's assets are marketable securities which can be converted into cash when required.

## 4. Management of insurance and financial risk (continued)

### 4.5 Pension risk

As disclosed in note 30, the Society is a participating employer within the UNISON Staff Pension Scheme. This is a multi-employer Defined Benefit pension scheme. As such our financial commitment to the scheme can vary significantly over time as we are dependent on a significant range of variables such as investment performance, longevity, interest rates, inflation and retirement ages.

However, the highest impact single risk facing the Society relates to the covenant of the other sponsoring employer within the scheme. In the event of the insolvency of the other sponsor, liability for the entire deficit would fall on the Society. This is known as the "last man standing" commitment.

## 5. Underwriting Activities

### 5(a) Net earned premium

| | **2018** £'000 | 2017 £'000 |
|---|---|---|
| **Gross earned premium** | | |
| Gross written premium | **24,549** | 24,940 |
| Change in unearned premium | **608** | (991) |
| Gross earned premium | **25,157** | 23,949 |
| **Reinsurance premium ceded** | | |
| Reinsurance premium payable | **(2,037)** | (4,042) |
| Change in reinsurers share of unearned premium | **(1,538)** | 1,521 |
| Reinsurance premium ceded | **(3,575)** | (2,521) |
| Net earned premium | **21,582** | 21,428 |

### 5(b) Net insurance claims and claims settlement expenses

| | **2018** £'000 | 2017 £'000 |
|---|---|---|
| **Insurance claims and claims settlement expenses** | | |
| Gross insurance claims and claims settlement expenses paid | **(17,961)** | (13,504) |
| Gross change in provision for claims | **(1,253)** | (1,458) |
| Gross incurred insurance claims and claims settlement expenses | **(19,214)** | (14,962) |
| **Insurance claims and claims settlement expenses recoverable from reinsurers** | | |
| Gross claims and claims settlement expenses paid recoverable from reinsurers | **2,014** | 1,462 |
| Gross change in provision for claims and claims settlement expenses recoverable from reinsurers | **(447)** | (198) |
| Gross claims and claims settlement expenses recoverable from reinsurers | **1,567** | 1,264 |
| Net incurred claims and claims settlement expenses | **(17,647)** | (13,698) |

## Notes to the Financial Statements (continued)
*for the year ended 31 December 2018*

### 6. Segmental analysis

| **Technical account 2018** | Household | Home Emergency | Legal | Legal Expenses | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Net earned premium** | | | | | |
| Gross written premium | **22,691** | **787** | **668** | **403** | **24,549** |
| Change in gross unearned premium | **584** | **15** | **9** | **-** | **608** |
| Gross earned premium | **23,275** | **802** | **677** | **403** | **25,157** |
| Reinsurance premium ceded | **(1,693)** | **(802)** | **(677)** | **(403)** | **(3,575)** |
| Net earned premium | **21,582** | **-** | **-** | **-** | **21,582** |
| Allocated investment return transferred from the non-technical account | **170** | **-** | **-** | **-** | **170** |
| Overriding commission | **-** | **396** | **428** | **27** | **851** |
| **Total technical income** | **21,752** | **396** | **428** | **27** | **22,603** |
| **Net claims incurred** | | | | | |
| Gross insurance claims and claims settlement expenses | **(17,908)** | **(282)** | **(182)** | **(842)** | **(19,214)** |
| Insurance claims and claims settlement expenses recoverable from reinsurers | **261** | **282** | **182** | **842** | **1,567** |
| Net claims incurred | **(17,647)** | **-** | **-** | **-** | **(17,647)** |
| Change in other technical provisions | **229** | **-** | **-** | **-** | **229** |
| Net operating expenses | **(12,722)** | **-** | **-** | **-** | **(12,722)** |
| **Total technical charges** | **(30,140)** | **-** | **-** | **-** | **(30,140)** |
| **Balance on technical account** | **(8,388)** | **396** | **428** | **27** | **(7,537)** |

All insurance underwritten by the Society is in respect of risks located in the United Kingdom.

**Notes to the Financial Statements (continued)**
*for the year ended 31 December 2018*

## 6. Segmental analysis (continued)

| Technical account 2017 | Household | Home Emergency | Legal | Legal Expenses | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Net earned premium** | | | | | |
| Gross written premium | 23,069 | 795 | 666 | 410 | 24,940 |
| Change in gross unearned premium | (636) | (194) | (161) | - | (991) |
| Gross earned premium | 22,433 | 601 | 505 | 410 | 23,949 |
| Reinsurance premium ceded | (1,167) | (601) | (505) | (248) | (2,521) |
| Net earned premium | 21,266 | - | - | 162 | 21,428 |
| Allocated investment return transferred from the non-technical account | 445 | - | - | - | 445 |
| Overriding commission | - | 308 | 325 | - | 633 |
| **Total technical income** | 21,711 | 308 | 325 | 162 | 22,506 |
| **Net claims incurred** | | | | | |
| Gross insurance claims and claims settlement expenses | (13,880) | (148) | (127) | (807) | (14,962) |
| Insurance claims and claims settlement expenses recoverable from reinsurers | 182 | 148 | 127 | 807 | 1,264 |
| Net claims incurred | (13,698) | - | - | - | (13,698) |
| Change in other technical provisions | (695) | - | - | - | (695) |
| Net operating expenses | (12,354) | - | - | (155) | (12,509) |
| **Total technical charges** | (26,747) | - | - | (155) | (26,902) |
| **Balance on technical account** | (5,036) | 308 | 325 | 7 | (4,396) |

All insurance underwritten by the Society is in respect of risks located in the United Kingdom.

## 7. Expenses

| (a) Net operating expenses | **2018** £'000 | 2017 £'000 |
|---|---|---|
| Acquisition costs | **3,670** | 5,625 |
| Changes in deferred acquisition costs | **404** | (5) |
| Administrative expenses including amortisation | **8,648** | 6,889 |
| | **12,722** | 12,509 |

| (b) Auditor's remuneration | | |
|---|---|---|
| Fees payable to the auditor for the audit of the annual accounts | **79** | 96 |
| Fees payable for the audit of subsidiary Companies pursuant to legislation | **11** | 10 |
| Other services pursuant to legislation | **-** | 20 |
| Other services pursuant to taxation | **-** | 4 |
| | **90** | 130 |

| (c) Operating lease payments | | |
|---|---|---|
| Rental of buildings | **306** | 306 |
| Hire of plant and machinery | **42** | 47 |
| | **348** | 353 |

## 8. Colleague information

The average monthly number of colleagues (including Executive Directors) employed by the Group during the year was as follows:

| | **2018** Number | 2017 Number |
|---|---|---|
| Underwriting and claims | **37** | 34 |
| Administration and finance | **30** | 30 |
| Sales and marketing | **25** | 25 |
| Subsidiary activities | **56** | 57 |
| | **148** | 146 |

## 8. Colleague information (continued)

Colleague costs were as follows:

| | **2018** £'000 | 2017 £'000 |
|---|---|---|
| Wages and salaries | **3,272** | 2,745 |
| Social security cost | **330** | 260 |
| Pension costs | **928** | 767 |
| | **4,530** | 3,772 |

## 9. Directors' emoluments

The remuneration of the Executive Directors who served during the year is detailed below:

| | **2018** £'000 | 2017 £'000 |
|---|---|---|
| Aggregate emoluments | **274** | 380 |
| Compensation for loss of office | **-** | 188 |
| Compensation for cancellation of Long Term Incentive Plan | **-** | 21 |
| Employers Pension Contribution | **19** | 41 |
| **Total Directors' emoluments** | **293** | 630 |

Disclosures on Directors' remuneration, long-term incentive schemes, pension contributions and pension entitlements, including those of the highest paid Director, as required by the Companies Act 2006, are contained in the Directors' Remuneration report on page 21.

# UIA (Insurance) Limited

## Notes to the Financial Statements (continued)
*for the year ended 31 December 2018*

### 10. Net investment return

| | Investment income | | | Net investment expenses | Changes in fair value | Net investment result |
|---|---|---|---|---|---|---|
| | Net investment income | Amortised interest | Net realised gains / (losses) | | | |
| | **2018** | **2018** | **2018** | **2018** | **2018** | **2018** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equities | | | | | | |
| Bonds & short term gilts | | | | | | |
| Unit trusts | **1,374** | **-** | **(385)** | **-** | **(1,351)** | **(362)** |
| Term deposits | **51** | **32** | **-** | **-** | **-** | **83** |
| Cash and cash equivalents | **16** | **-** | **(1)** | **-** | **(2)** | **13** |
| Other investment income | **74** | **-** | **-** | **-** | **-** | **74** |
| Other investment expenses | **-** | **-** | **-** | **(7)** | **-** | **(7)** |
| | **1,515** | **32** | **(386)** | **(7)** | **(1,353)** | **(199)** |
| Investment income | | **1,161** | | | | |

| | Investment income | | | Net investment expenses | Changes in fair value | Net investment result |
|---|---|---|---|---|---|---|
| | Net investment income | Amortised interest | Net realised gains / (losses) | | | |
| | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equities | 628 | - | (42) | (66) | - | 520 |
| Bonds & short term gilts | 220 | - | 164 | (5) | - | 379 |
| Unit trusts | 14 | - | 2,072 | (9) | 566 | 2,643 |
| Term deposits | 14 | 53 | - | - | - | 67 |
| Cash and cash equivalents | 35 | - | - | - | - | 35 |
| Other investment income | 10 | - | - | 10 | - | 20 |
| Other investment expenses | - | - | - | (6) | - | (6) |
| | 921 | 53 | 2,194 | (76) | 566 | 3,658 |
| Investment income | | 3,168 | | | | |

# UIA (Insurance) Limited

**Notes to the Financial Statements (continued)**
*for the year ended 31 December 2018*

## 11. Net result of non-underwriting activities

The net results of the non-underwriting activities of the Society's trading subsidiaries are shown separately in the non-technical account. Revenue consists of commission receivable by UIA (Insurance Services) Limited and recharges of expenses incurred in the provision of call centre help lines to members of UNISON by UIA (Call Centres) Limited.

| **2018** | UIA (Insurance Services) Ltd | UIA (Call Centres) Ltd | UIA Lottery Management Services Ltd Note * | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Turnover | **222** | **2,192** | **-** | **2,414** |
| Administrative expenses | **(169)** | **(2,192)** | **-** | **(2,361)** |
| Retained profit for the year | **53** | **-** | **-** | **53** |

| **2017** | UIA (Insurance Services) Ltd | UIA (Call Centres) Ltd | UIA Lottery Management Services Ltd | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Turnover | 218 | 2,171 | - | 2,389 |
| Administrative expenses | (153) | (2,171) | - | (2,324) |
| Retained profit for the year | 65 | - | - | 65 |

Note *: UIA Lottery Management Services Limited traded during 2018 and is therefore included above for completeness.

**Notes to the Financial Statements (continued)**
*for the year ended 31 December 2018*

## 12. Taxation on profit on ordinary activities

The Society, as a mutual, is not taxed on its transactions with members and only the Society's investment income is subject to corporation tax.

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| **(a) Analysis of the tax charge** | | |
| UK corporation tax: | | |
| Current tax | **11** | 916 |
| Adjustments in respect of previous periods | **6** | 16 |
| Total corporation tax | **17** | 932 |
| Changes in deferred tax balances (see (c)) | **(38)** | (440) |
| Total current tax charge for the year | **(21)** | 492 |

**(b) Factors affecting tax charge for the year**

The tax credit for the year is lower than 19% (2017: lower than 19.25%) of taxable income for the year. The differences are explained below:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Loss on ordinary activities before tax | **(8,086)** | (1,400) |
| Tax on ordinary activities at 19% (2017: 19.25%) | **(1,536)** | (270) |
| Effects of: | | |
| Loss on technical account | **1,432** | 846 |
| Allocated investment return | **32** | 85 |
| Return on pension scheme | **44** | 54 |
| Fully franked investment income | **-** | (69) |
| Unrealised gain / (loss) movement | **-** | |
| Refund from 2017 | **7** | (16) |
| Indexation | **-** | (130) |
| Charitable donations | **-** | (8) |
| Realised losses brought forward | **-** | - |
| Current tax (credit) / charge for the year | **(21)** | 492 |

**(c) Provision for deferred taxation**

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| **Deferred tax at 1 January** | **(2)** | 438 |
| Movement in the provision | **(38)** | (440) |
| **Deferred tax at 31 December** | **(40)** | (2) |

In 2018, a deferred tax asset of £38,000 (2017:£nil) was recognised in relation to unrealised investment losses.

In the Finance (No 2) Act 2015 the UK Government enacted a reduction in the UK corporation tax rate from 20% to 19% effective from 1 April 2017, and then the Finance Act 2016 enacted a further reduction to 17% effective from 1 April 2020. The impact of these changes on the tax charge for the year is set out in the table above.

### 13. Deficit for the financial year

Consistent with Section 408 of the Companies Act 2006 the Society income statement is not presented as part of these financial statements. The Group deficit for the financial year was £5,787,000 (2017: deficit £775,000) which includes a £5,330,000 deficit (2017: deficit £829,000) reported in the financial statements of the Society.

### 14. Intangible assets

| | Group | The Society |
|---|---|---|
| | **Software development** £'000 | **Software development** £'000 |
| **Cost** | | |
| **At 1 January 2018** | **3,698** | **3,698** |
| Additions | **1,655** | **1,655** |
| **At 31 December 2018** | **5,353** | **5,353** |
| **Accumulated amortisation** | | |
| **At 1 January 2018** | **(2,540)** | **(2,540)** |
| Charge for the year | **(363)** | **(363)** |
| **At 31 December 2018** | **(2,903)** | **(2,903)** |
| **Net book value at 31 December 2018** | **2,450** | **2,450** |
| Net book value at 31 December 2017 | 1,158 | 1,158 |

**Notes to the Financial Statements (continued)**
*for the year ended 31 December 2018*

## 15. Financial investments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2018** | **2018** | **2018** |
| | Fair value £'000 | Cost £'000 | Fair value £'000 | Cost £'000 |
| Financial assets | | | | |
| Shares and other variable securities in unit trusts | **41,922** | **42,478** | **41,922** | **42,478** |
| Cash and cash equivalents | **9,011** | **9,013** | **9,011** | **9,011** |
| Total | **50,933** | **51,491** | **50,933** | **51,491** |

| | Group | | The Society | |
|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 |
| | Fair value | Cost | Fair value | Cost |
| Financial assets | | | | |
| Shares and other variable securities in unit trusts | 45,633 | 45,046 | 45,633 | 45,046 |
| Cash and cash equivalents | 15,110 | 15,011 | 15,110 | 15,011 |
| Total | 60,743 | 60,057 | 60,743 | 60,057 |

The Group has no financial liabilities. (2017:£nil)

## 16. Investment in subsidiaries

| | The Society | |
|---|---|---|
| | **2018** £'000 | **2017** £'000 |
| **Cost at 1 January and 31 December** | **475** | 475 |
| Provision for impairment at 1 January | **(211)** | (210) |
| Provision for impairment | **-** | (1) |
| Provision for impairment at 1 January | **(211)** | (211) |
| **Net book value at 31 December** | **264** | 264 |

The Society owns 100% of the ordinary shares of five subsidiaries, all of whom are registered in England and Wales at Kings Court, London Road, Stevenage, Hertfordshire, SG1 2TP. The subsidiaries are UIA (Insurance Services) Limited, which acts as an insurance broker, UIA (Call Centres) Limited, which acts as an operator of telephone call centres, UIA (Trustees) Limited, which acts as corporate trustee for the UIA Charitable Foundation, UIA Lottery Management Services Limited which acted as a lottery operator; and Uniservice Limited, a dormant Company.

## Notes to the Financial Statements (continued)
*for the year ended 31 December 2018*

### 17. Technical provisions - assets

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| a) Reinsurers share of outstanding claims | | | | |
| **At 1 January** | **2,146** | 2,516 | **2,146** | 2,516 |
| Movement in provision | **(448)** | (370) | **(448)** | (370) |
| **Reinsurers share of outstanding claims at 31 December** | **1,698** | 2,146 | **1,698** | 2,146 |

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| b) Reinsurers share of unearned premium | | | | |
| **At 1 January** | **2,269** | - | **2,269** | - |
| Movement in provision | **(1,538)** | 2,269 | **(1,538)** | 2,269 |
| **Reinsurers share of unearned premium at 31 December** | **731** | 2.269 | **731** | 2,269 |

### 18. Other debtors

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts owed by other parties | **465** | 595 | **465** | 595 |
| Deferred tax asset | **40** | 2 | **38** | - |
| Amounts due from subsidiaries | **-** | - | **407** | 279 |
| | **505** | 597 | **910** | 874 |

Amounts due from subsidiaries are unsecured and are repayable on demand.

## 19. Tangible assets

### (a) Tangible assets – Group

| | Computer equipment & systems £'000 | Furniture, fixtures & fittings £'000 | Total £'000 |
|---|---|---|---|
| Cost | | | |
| **At 1 January 2018** | **339** | **560** | **899** |
| Additions | **48** | | **48** |
| Disposals | **(10)** | **(274)** | **(284)** |
| **At 31 December 2018** | **377** | **286** | **663** |
| Accumulated depreciation | | | |
| **At 1 January 2018** | **(315)** | **(513)** | **(828)** |
| Charge for the year | **(24)** | **(12)** | **(36)** |
| Disposals | **10** | **274** | **284** |
| **At 31 December 2018** | **(329)** | **(251)** | **(580)** |
| **Net book value at 31 December 2018** | **48** | **35** | **83** |
| Net book value at 31 December 2017 | 24 | 47 | 71 |

### (b) Tangible assets – The Society

| | Computer equipment & systems £'000 | Furniture, fixtures & fittings £'000 | Total £'000 |
|---|---|---|---|
| Cost | | | |
| **At 1 January 2018** | **301** | **517** | **818** |
| Additions | **48** | **-** | **48** |
| Disposals | **(8)** | **(274)** | **(282)** |
| **At 31 December 2018** | **341** | **243** | **584** |
| Accumulated depreciation | | | |
| **At 1 January 2018** | **(277)** | **(470)** | **(747)** |
| Charge for the year | **(24)** | **(12)** | **(36)** |
| Disposals | **8** | **274** | **282** |
| **At 31 December 2018** | **(293)** | **(208)** | **(501)** |
| **Net book value at 31 December 2018** | **48** | **35** | **83** |
| Net book value at 31 December 2017 | 24 | 47 | 71 |

### 20. Deferred acquisition costs

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| **At 1 January** | **1,073** | 1,068 | **1,073** | 1,068 |
| Movement in provision | **(405)** | 5 | **(405)** | 5 |
| **Deferred acquisition costs at 31 December** | **668** | 1,073 | **668** | 1,073 |

### 21. Share capital

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| **Issued and fully paid up** | | | | |
| 145,467 ordinary shares of 1p (2017:121,985) | **1** | 1 | **1** | 1 |

Policyholders and joint policyholders of home insurance policies are also members of the Society. A 1p share is allocated to each member when they first take out a home insurance policy and the share or shares are cancelled upon cessation of their policy. As such, the number of ordinary shares in issue changes each year in line with the number of members.

### 22. Technical provisions - liabilities

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| **a) Provision for gross unearned premium** | | | | |
| **At 1 January** | **12,693** | 11,702 | **12,693** | 11,702 |
| Movement in provision | **(608)** | 991 | **(608)** | 991 |
| **Unearned premium at 31 December** | **12,085** | 12,693 | **12,085** | 12,693 |

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| **b) Provision for gross outstanding claims** | | | | |
| **Notified claims at 1 January** | **8,656** | 7,550 | **8,656** | 7,550 |
| Movement in provision | **(301)** | 1,108 | **(301)** | 1,108 |
| **Notified claims at 31 December** | **8,355** | 8,656 | **8,355** | 8,656 |
| **Claims incurred but not reported at 1 January** | **3,877** | 3,044 | **3,877** | 3,044 |
| Movement in provision | **1,630** | 833 | **1,630** | 833 |
| **Claims incurred but not reported at 31 December** | **5,507** | 3,877 | **5,507** | 3,877 |
| **Gross outstanding claims at 31 December** | **13,862** | 12,553 | **13,862** | 12,553 |

## Notes to the Financial Statements (continued)
*for the year ended 31 December 2018*

### 22. Technical provisions – liabilities (continued)

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| **c) Unearned commissions** | | | | |
| **At 1 January** | **417** | 230 | **417** | 230 |
| Movement in the provision | **(5)** | 187 | **(5)** | 187 |
| **Unearned commission at 31 December** | **412** | 417 | **412** | 417 |

Within the movement in the provision for outstanding claims, there is a release of £1,249,000 (2017: release £1,009,000) which arose as outstanding claims were settled below reserves held as at 31 December 2017. This has been credited to the current year consolidated technical account.

### 23. Other technical provisions

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| **Provision for unexpired risks** | | | | |
| **At 1 January** | **975** | 280 | **975** | 280 |
| Movement in the provision | **(230)** | 695 | **(230)** | 695 |
| **Unexpired risks at 31 December** | **745** | 975 | **745** | 975 |

### 24. Other creditors

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| Corporation tax payable | **11** | 588 | **-** | 573 |
| Amounts owed to other parties | **2,026** | 2,664 | **1,904** | 2,383 |
| Amounts due to subsidiaries | **-** | - | **149** | 826 |
| | **2,037** | 3,252 | **2,053** | 3,782 |

Amounts due to subsidiaries are unsecured and are payable on demand.

## Notes to the Financial Statements (continued)
*for the year ended 31 December 2018*

### 25. Provisions for other risks

| | Group | | The Society | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| **Defined benefit pension scheme liability** | | | | |
| **Provision at 1 January** | **10,295** | 11,024 | **10,295** | 11,024 |
| Credit recognised through changes in equity | **(2,278)** | (1,117) | **(2,278)** | (1,117) |
| Expense recognised through profit and loss | | | | |
| Net interest expenses | **233** | 282 | **233** | 282 |
| Running costs | **102** | 111 | **102** | 111 |
| Pension contributions | **(1,147)** | (1,119) | **(1,147)** | (1,119) |
| Current service cost | **1,209** | 1,114 | **1,209** | 1,114 |
| Past service cost | **130** | - | **130** | - |
| Expense recognised through profit and loss | **527** | 388 | **527** | 388 |
| Net movement in provision | **(1,751)** | (729) | **(1,751)** | (729) |
| **Provision at 31 December** | **8,544** | 10,295 | **8,544** | 10,295 |

## 26. Reconciliation of operating loss to cash generated by operations

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Operating loss before taxation** | **(8,086)** | (1,400) |
| Adjustment for: | | |
| Investment Income | **199** | (3,658) |
| Pension expense recognised through profit and loss | **527** | 388 |
| Depreciation | **36** | 21 |
| Amortisation | **363** | 144 |
| Loss on impairment of property, plant and equipment | **-** | 50 |
| **Operating cash flows before movements in working capital** | **(6,961)** | (4,455) |
| Decrease in reinsurance assets | **448** | 370 |
| Decrease / (Increase) in deferred acquisition costs | **404** | (5) |
| (Decrease) / Increase in provision for unearned commission | **(5)** | 417 |
| Increase in insurance contract liabilities | **1,308** | 1,959 |
| Decrease / (increase) in receivables | **2,566** | (2,036) |
| Decrease / (Increase) in accrued interest and prepayments | **512** | (483) |
| (Decrease) / Increase in unearned premiums | **(608)** | 991 |
| (Decrease) / Increase in payables | **(2,502)** | 1,283 |
| (Decrease) / Increase in other technical provisions | **(230)** | 695 |
| **Cash generated by operations** | **(5,068)** | (1,264) |
| Taxes paid | **(635)** | (365) |
| **Net cash flow used by operating activities before investment of insurance assets** | **(5,703)** | (1,629) |
| Interest and dividends received | **1,279** | 689 |
| Sales of financial investments | **34,852** | 71,017 |
| Purchase of financial investments | **(32,616)** | (66,215) |
| Other investment income | **74** | 10 |
| Net investment expenses | **(7)** | (76) |
| **Cash generated from investment of insurance assets** | **3,582** | 5,425 |

## 27. Operating lease commitments

The future minimum annual lease payments payable under non-cancellable operating leases expiring in the years shown below, are as follows:

| | Group Land and buildings | | The Society Land and buildings | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | £'000 | £'000 | £'000 | £'000 |
| Operating leases which expire: | | | | |
| within one year | **-** | - | **-** | - |
| in two to five years | **306** | 306 | **306** | 306 |
| after more than five years | **-** | - | **-** | - |
| | **306** | 306 | **306** | 306 |
| Operating lease rentals charged to profit and loss in the year | **306** | 306 | **306** | 306 |

## 28. Related parties

### Directors

Members of the Board of Directors may also be members of the Society through having insurance policies with the Society. These are on the same terms as other colleagues.

Directors' emoluments are disclosed in note 9.

### Group Companies

UIA (Insurance) Limited transacts with other group companies in the normal course of business.

The Society has taken advantage of the exemption available under paragraph 33.1A of FRS 102 and has not provided details of transactions with entities forming part of the UIA Group.

## 29. Capital commitments

The Group has no capital commitments for tangible or intangible assets contracted for and payable within 12 months (2017: nil).

## 30. Retirement benefit obligations

All colleagues of the Society are eligible to join either the Society's defined benefit pension scheme, or its defined contribution scheme.

*Defined benefit scheme*

The Society participates in a funded pension scheme, The UNISON Staff Pension Scheme, which provides benefits for some of its employees based on final pensionable pay. The scheme is open to new members. The Society is one of several employers that participate in the scheme.

The assets of the scheme are held in a separate trustee-administered fund. The scheme is administered by trustees and is independent of the Societies finances

Contributions are paid to the scheme in accordance with the Schedule of Contributions agreed between the trustees and the employers. The estimated amount of contributions expected to be paid to the scheme by the Society during 2019 is £1,300,000 (2018: £1,147,000).

The scheme is actuarially valued every three years. The valuation as at 30th June 2017 has now been completed by the Trustees and the scheme actuary and the Trustees of the scheme and the sponsoring employers have agreed a revised schedule of contributions that, in conjunction with other assumptions, would repay this deficit by 30th September 2035.

These include increased contributions payable as part of the deficit recovery plan as detailed below:
£54,852 In respect of calendar year 2018;
£54,852 in respect of calendar year 2019;
£54,852 in respect of calendar year 2020;
An increase in annual contribution rate from 25% of pensionable salaries to 26.8% for the period 1st January 2019 to 30th September 2035; and
Additional annual contributions of £109,704 for the period 1st January 2020 to 30th September 2035

It is not possible to quantify the total amount of additional contributions payable over the next 18 years. As an indication, if pensionable salaries were to increase at a rate of 3.5% per annum over the 18 years, the total amount payable over the 18 year period in respect of these additional contributions amounts to £3,450,000. If the increase in pensionable salaries was 4.5%, an increase of 1%, the total amount payable would increase by £200,000 over the same period.

### 30. Retirement benefit obligations (continued)

The results of the formal actuarial valuation as at 30 June 2017 were updated to 31 December 2018 by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liability has been measured using the projected unit method. The funding target is for the scheme to hold assets equal in value to the accrued benefits based on projected salaries. If there is a shortfall against this target then the Society and trustees will agree on deficit contributions to meet this deficit over a period.

The assets and liabilities of the scheme are not segregated between the employers that participate in the scheme. Consequently, the share of the scheme's liabilities in respect of the Society's employees and former employees, and the assets backing those liabilities, has been estimated.

The following table sets out the key FRS 102 assumptions used for the scheme.

| Assumptions | **2018** | **2017** |
|---|---|---|
| Discount rate | **3.0% pa** | 2.4% pa |
| Retail Prices Index inflation | **3.2% pa** | 3.2% pa |
| Consumer Prices Index inflation | **2.1% pa** | 2.1% pa |
| Pension increases in payment | **3.2% pa** | 3.2% pa |
| General salary increases | **2.6% pa** | 2.6% pa |
| Life expectancy of male currently aged 60 | **26.4 years** | 26.6 years |
| Life expectancy of female currently aged 60 | **28.6 years** | 28.7 years |
| Life expectancy of male aged 60 in 20 years' time | **28.0 years** | 28.1 years |
| Life expectancy of female aged 60 in 20 years' time | **30.2 years** | 30.2 years |

The amount included in the Group and Society balance sheets arising from the Society's obligations in respect of the scheme is as follows:

| | **2018**<br>£'000 | **2017**<br>£'000 |
|---|---|---|
| Present value of defined benefit obligation | **(37,073)** | (40,946) |
| Fair value of scheme assets | **28,529** | 30,651 |
| Deficit | **(8,544)** | (10,295) |

The amounts recognised in the loss for the year are as follows:

| | **2018**<br>£'000 | **2017**<br>£'000 |
|---|---|---|
| Current service costs | **1,209** | 1,114 |
| Running costs | **102** | 111 |
| Interest expense on net defined benefit liability | **233** | 282 |
| Past service costs | **130** | - |
| Total expense recognised in profit or loss | **1,674** | 1,507 |

## 30. Retirement benefit obligations (continued)

The following amounts are included in finance income:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Running costs | **102** | 111 |
| Net interest charged on net defined liability | **233** | 282 |
| Total charge to finance income | **335** | 393 |

The current allocation of the scheme's assets is as follows:

| | 2018 % | 2017 % |
|---|---|---|
| Equity instruments | **39** | 45 |
| Debt instruments | **30** | 30 |
| Property | **4** | 8 |
| Multi-asset funds | **21** | 17 |
| Cash | **6** | - |
| | **100%** | 100% |

Changes in the present value of the Society's share of the defined benefit obligation are as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Opening present value of defined benefit obligation | **40,946** | 38,390 |
| Current service cost | **1,209** | 1,114 |
| Interest on obligation | **976** | 1,030 |
| Contributions from scheme members | **-** | 5 |
| Actuarial gain | **(5,633)** | 889 |
| Benefits paid | **(555)** | (482) |
| Past service costs | **130** | - |
| Closing present value of defined benefit obligation | **37,073** | 40,946 |

Changes in the fair value of the Society's share of the scheme's assets are as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Opening fair value of the scheme assets | **30,651** | 27,366 |
| Interest on scheme assets | **743** | 748 |
| Actuarial return less interest on scheme assets | **(3,355)** | 2,006 |
| Running costs | **(102)** | (111) |
| Contributions by the employer | **1,147** | 1,119 |
| Contributions by scheme members | **-** | 5 |
| Benefits paid | **(555)** | (482) |
| Closing fair value of scheme assets | **28,529** | 30,651 |

## 30. Retirement benefit obligations (continued)

The actual return on the Society's share of the scheme's assets over the year was a loss of £2,612,000 (2017: a gain of: £2,754,000).

The sensitivity of defied benefit obligation to alternative assumptions is as follows:

| | Increase £'000 | Decrease £'000 |
|---|---|---|
| **Discount Rate** | | |
| Effect of an increase / decrease of 0.1% pa in net liabilities | **(802)** | **827** |
| **Price inflation** | | |
| Effect of an increase / decrease 0.1% pa in net liabilities | **799** | **(776)** |
| **Life expectancy** | | |
| Effect of an increase / decrease of one year in net liabilities | **1,027** | **(1,211)** |

Note: positive values represent an increase in net liabilities / negative values a reduction in net liabilities

*Defined contribution scheme*

The Society's defined contribution scheme is administered by a third party. The Society pays contributions along with participating colleagues, and benefits are linked to the total level of contributions paid, the performance of each colleague's chosen investment fund and the form in which colleagues chose to take their benefits. The estimated amount of contributions expected to be paid to the scheme by the Society during 2019 is £27,000 (2018: £ 26,000).

# UIA (Insurance) Limited

## Glossary
*for the year ended 31 December 2018*

### Strategic Report

### Key performance indicators

Combined Operating Ratio = $\dfrac{\text{Incurred Losses + Expenses}}{\text{Earned Premiums}}$

Household Loss Ratio = $\dfrac{\text{Claims paid + Change in provision for claims – reinsurers' share + other technical provisions}}{\text{Earned Premiums}}$

Underlying Household Expense ratio = $\dfrac{\text{Net Operating Expenses}}{\text{Earned Premiums}}$

Investment Yield = $\dfrac{\text{Net Investment Income + Realised gains – Investment expenses}}{\text{Prior year investment balance}}$

Return on Capital employed (ROCE) = $\dfrac{\text{Total comprehensive income for the year}}{\text{Prior year Shareholders Equity}}$

Solvency II cover = $\dfrac{\text{Total eligible own funds}}{\text{SCR}}$

### Conduct risk indicators

Service levels – customer service and new business = % of calls answered within 30 seconds

Claims abandoned calls = % of claims calls not answered before caller stops the call

Not taken up = % of sales cancelled within the 14 day cooling off period

Declined claims = % of $\dfrac{\text{Claims declined in month}}{\text{Claims logged in the month}}$

Customer satisfaction = % of respondents of the "How are we doing" survey responding "Extremely" or "Quite" satisfied to the question "Overall, how satisfied have you been with customer services?"

Reportable complaints to the Financial Ombudsman is the number of complaints taken to the mediator in the year