



Report and Accounts 2021

Western Provident Association Limited



Western Provident Association Limited (WPA) is a company limited by guarantee; it is domiciled, incorporated and registered in England and Wales under company number 00475557. The Directors here present their annual report together with the audited consolidated financial statements for the year ended 31 December 2021.

These Report and Accounts have been prepared by WPA on behalf of itself and its subsidiaries within the WPA Group for information only. Accordingly, WPA and all of its Directors, members and affiliates exclude liability for any reliance upon the Report and Accounts arising from any statement or omission.

Contents

1 Chairman's Statement	34 Independent Auditor's Report
2 Chief Executive's Review	43 Consolidated Statements
4 Strategic Report <ul style="list-style-type: none">- Strategy- Review of 2021- Board of Directors- Principal risks and uncertainties- WPA and Section 172 of the Companies Act 2006	46 Parent Company Statements
12 Directors' Report	48 Accounting Policies
15 Board of Directors and Principal Officers	52 Notes to the Accounts
19 Board of Directors Attendance Register 2021	
20 System of Governance	
22 Corporate Governance	

Chairman's Statement



The Rt Hon The Earl of Cromer

It has been reassuring to observe private healthcare reinvigorate in 2021 after the covid restrictions of 2020 and see our customers readily access the treatment they require.

The 2021 results demonstrate we have fulfilled our commitment not to profit from the pandemic and now we move forward in an environment where private healthcare and health insurance becomes increasingly utilised and important in complementing the work of the NHS.

WPA continues to work as a team for the benefit of our customers and this has resulted in another successful year for the Association. Feedback from customers, whether received directly through our own surveys or published on sites such as Trustpilot, demonstrates that we deliver excellent service. This reputation is built on a culture of treating our customers as we would wish to be treated ourselves and this pervades throughout the Association. Our dedicated team believes in this philosophy which creates a vibrant organisation where our people enjoy working - employee satisfaction scores remain outstanding. Our people have displayed incredible flexibility over the last 2 years and deserve huge credit and thanks for their dedication.

The business strategy has proven effective with investment in product development, contemporising customer experience and organically building our profile, translating through to increasing customer numbers. External accolades such as the awards to the left endorse our approach.

Looking forward I am confident that WPA will remain successful. We have a sound culture, a dedicated team and a strong capital base that equips us to deal with the challenges ahead. We remain committed to our purpose of enabling our customers to access the best healthcare - in recent memory the value of good health has never been in sharper focus.

The Rt Hon The Earl of Cromer *Chairman*

17 March 2022



Chief Executive's Review



Nathan Irwin

2021, despite the challenges of the Covid Pandemic, saw demand for healthcare increase significantly. The restrictions on the private healthcare sector in the UK dissipated early in 2021 and activity levels rose significantly in the first quarter. As expected, this resulted in WPA customers increasingly utilising their policies throughout 2021 and, pleasingly, demand for health insurance followed a similar upward trajectory.

We committed back in March 2020 not to profit from the pandemic. The £7.4m rebates paid in April and June 2020 demonstrated this commitment as well as our ethos to treat our customers as we would wish to be treated ourselves. Cumulatively over the pandemic period we report a loss of £0.7m on £218m of premium income. We evidently judged the rebate levels about right and have fulfilled our commitment.

The business continued to perform successfully. Customer numbers increased by 7% to 325,000 and written premium followed a similar pattern up 9% year on year. We anticipated that claims levels would increase dramatically in the first quarter, and this proved to be the case; this position continued throughout 2021 with claimant rates remaining above pre-covid levels throughout the year.

We anticipate that the higher claim rates observed in 2021 will continue for the foreseeable future as demand for private healthcare will remain higher than pre-covid levels. This, coupled with an inflationary macroeconomic environment, will be reflected in premium rate increases as we seek to balance income with costs, commensurate with our not-for-profit ethos on our customer interactions.


We have made excellent progress against our strategic objectives. Key milestones include the launch of LifeStage Health, a product which enables employers to provide support for life events such as fertility and menopause that historically would have been outside of a traditional health insurance product. We have contemporised the customer experience such that those who wish to interact digitally can increasingly do so and have seen significant increase in customers utilising the technology available within the WPA Health app. In Q4 we completed the build of a new platform to improve the experience of new customers joining WPA. In early 2022 this will be expanded to the insurance intermediaries we work with.

Overall our service levels have remained excellent throughout the year. I remain immensely grateful to our hardworking team who have adapted brilliantly to remote and hybrid working. I hope during 2022 we can spend more time together as a team. A good demonstration of the teamwork across the business can be found in our people survey results which, in the survey conductor's experience, puts WPA in the outstanding range.

Chief Executive's Review continued

The investment portfolio returned a satisfactory £3.8m. The portfolio remained defensively deployed with the majority held in very low yielding UK Government stock and cash instruments. The equity components generally performed well as stocks globally rebounded from the Covid lows of 2020. The return was curtailed with some disappointing performance from some of the strategic equity positions.

The outlook for 2022 and beyond is an optimistic blend of opportunity and risk. The abhorrent situation in Ukraine is concerning and our thoughts are with all those affected. Whilst there is currently no direct impact on the insurance activities of WPA, the equity exposure within the portfolio will follow market movements and wider macroeconomic consequences will take time to emerge. Notwithstanding this, demand for UK health insurance and private healthcare are expected to remain strong. Getting the balance right between premium rates and claims levels will be more complex than it has been in recent times, but with a strong capital base and an unwavering purpose to enable our customers to access the best healthcare we are confident that WPA will remain healthy going forward.



Nathan Irwin *Chief Executive*
17 March 2022

Strategic Report

Western Provident Association Limited is a company limited by guarantee; it is domiciled, incorporated and registered in England and Wales under company number 00475557. The registered office is Rivergate House, Blackbrook Park, Taunton, Somerset, TA1 2PE. The Directors here present their annual report together with the audited consolidated financial statements for the year ended 31 December 2021.

Strategy

The WPA strategy remains unchanged – the pursuit of quality in all that we do. As a not-for-profit organisation we are not entangled with the conflict between shareholder returns and long-term investment decisions and consequently have continued to invest in our people and processes, which for our customers means the delivery of excellent service. The omission of profit from our strategic objectives coupled with industry leading technology provides a compelling customer proposition, differentiating us from our competitors.

Our status as a company limited by guarantee is not common in today's financial services marketplace. We are reliant solely on our own resources, with no readily available access to external funding or the ability to raise share capital. Consequently, our resources over the last century have been carefully managed and our strength is evident in the Statement of Financial Position.

It is important to distinguish between the three primary activities of the WPA Group: medical insurance, healthcare administration and management of the investment portfolio. The insurance and healthcare administration operations include all interactions with current customers and we aim to break even on our customer relationships in the medium term.

The investment portfolio has the objective of maintaining the real value of the portfolio. Capital preservation, not growth, is paramount. Assets backing in-force business, as measured on a Solvency II Own Risk and Solvency Assessment (ORSA) basis, plus current liabilities, are held in UK Government stocks or cash. Assets in excess of the ORSA requirements and current liabilities are held in a diversified range of investments across different sectors and geographies. This investment strategy is designed to demonstrate the unquestionable financial stability of the business, whilst providing confidence that supports sustainable relationships in the long-term. As a general insurer it is necessary to recognise that our financial strength supports, but does not subsidise, the promises made to our current customers.

Strategic Report continued

Review of 2021

Looking back at 2021, it has been another year dominated by the impact of the Covid-19 pandemic and a year which has successfully brought the fulfilment of our promise to our customers not to profit from this pandemic. The customer rebates that we made in April and June 2020 demonstrated this commitment, and as our customers gained the confidence to utilise their health insurance and cash plan options this had a consequential increase on claims costs.

Net premium income of £118.1m (2020: £100.2m) for the year reflects a full year of premium for our renewing customers, alongside an increased number of lives covered, as well as the recognition of the £2.5m of deferred revenue from 2020 which reflected the unusual claims risk profile, covered in more detail under significant estimates and judgements in the accounting policies. There have been increases in numbers on cover in all areas of our business.

Claims costs have rebounded strongly reflecting customer confidence in accessing treatment. Thanks go to our team who have continued to perform to the highest levels during a year which has required them to be adaptable and responsive to a changing working environment. The expectation for the year was a claims ratio of higher than pre-pandemic levels, which proved accurate as our customers easily accessed medical professionals once again; in the year we experienced a claims ratio of 82.1% (2020: 74.5%). Claims authorisation levels were 97.5% (2020: 97.2%) of all correctly presented claims.

Overall operating and administrative expenses have increased from £26.0m to £29.3m. This can be attributed to an increase in new business acquisition costs and an increased headcount to service our higher customer numbers; alongside this we took the opportunity to update our office environment and equipment to reflect hybrid working.

The investment return for the year was once again commensurate with a low risk portfolio. We increased our equity exposure during 2021, to participate in rising global equity markets. However, the equity element of the portfolio only makes up 35% of the investment portfolio, with the remaining assets held in UK Government-issued securities, cash deposits and other cash-like instruments and investment-grade directly held corporate bonds or highly-rated corporate bond funds. The portfolio yielded a net return of 2.0% (£3.8m). The target return of the investment portfolio is to preserve the real value by reference to the CPI measure of inflation. In 2021 the return of 2.0% compared to an average CPI of 2.6%, the portfolio lagging the Index as a result of returns on low risk investments yielding a modest return in the low interest rate environment.

The business remains well capitalised with a Solvency Capital Requirement coverage ratio of 369% - unaudited (2020: 447%). The reduction in coverage is primarily as a result of increased equities within the investment portfolio as at 31 December 2021 compared to 2020, as well as an increase to premium income, as a result of the business growing. The total available capital is £183.6m - unaudited (2020: £187.0m).

Key performance indicators

Key performance indicators (KPIs) are reported to the Directors and Senior Managers each month as part of the regular management reporting and form an important element of the control environment. They indicate where actual experience is varying from plan and the prior year and, with our knowledge of our industry and market, help us to benchmark our performance.

An extract of the KPIs reported to the Board each month is as follows:

Premium receivable

£120.9m (2020: £110.7m)

Premium receivable, before the deduction of premium rebates for 2020.

Solvency II SCR coverage

3.7 (2020: 4.5)

Available regulatory capital divided by standard formula assessment.

Claims authorised

97.5% (2020: 97.2%)

Percentage of properly presented claims authorised.

Claims Ratio

82.1% (2020: 74.5%)

Ratio of net insurance claims to net insurance premium.

Combined operating ratio

104.7% (2020: 98.2%)

Ratio of net insurance claims and operating and administrative expenses to net insurance and administration income.

Net investment return

2.0% (2020: 0.3%)

Return as a percentage of portfolio value, net of fees.

Customer Numbers

325,342 (2020: 303,167)

The Company takes the exemption available under s414CA(4)b Companies Act 2006, from including a non-financial information statement in the Strategic Report.

Future outlook

As in previous years the two key components of the outlook for WPA are the UK economy and the private healthcare market. Customer numbers are likely to grow in response to NHS backlogs, tempered by increasing pressures on the cost of living and levels of unemployment. We expect the private sector will adapt capacity to cope with changes in demand.

Strategic Report continued

Future outlook continued

The UK is currently experiencing relatively high inflation levels. At the time of signing the ongoing conflict between Russia and Ukraine is likely to prolong inflationary pressures, although this is not anticipated to have a material impact on either these accounts or our future outlook.

Notwithstanding global events, overall the Board is positive for the outlook for WPA. We have demonstrated the resilience of the business throughout the Covid-19 pandemic and by remaining dedicated to our purpose of enabling our customers to access the best possible healthcare we are confident that the business will continue to be successful going forward.

Board of Directors

The members of the Board who served during the year and up to the date of signing are shown on pages 15 to 17.

Principal risks and uncertainties

The Group has an established risk management framework covering all material activities; this culminates in the ORSA which is reviewed by the Board on a regular basis. The following are considered to be the principal risks affecting the business and how management mitigates any adverse impact.

Insurance risk

Medical insurance is short-tail business and thus the ultimate claims outcome each year can be predicted with reasonable accuracy at the end of each accounting period. Adverse claims frequency or severity could result in short-term claims costs exceeding premium levels. Management regularly review underwriting ratios and take action as necessary to ensure that results within a financial year are aligned to the medium-term strategy of break-even across the insurance portfolio. The rebates issued in April and June 2020 and regular pricing reviews are both examples of this being actively managed. Low claims in 2020, as a result of the pandemic, gave rise to greater claims frequency risk in 2021 as customers sought delayed elective treatment. Further risk arises from longer NHS waiting lists which may result in greater utilisation in the private sector. Policy terms and premium rates are reviewed at least annually or more frequently where performance deviates from expectations. Contracts with major hospital networks are negotiated annually and when our customers require complex medical treatment, we work with the healthcare providers to ensure that our policyholders obtain value for money. The financial strength of the business does not necessitate an extensive reinsurance arrangement.

Operational risk

The business is exposed to a variety of operational risks in respect of systems, premises and people, including the risk of cyber-attack. To the extent possible the Board has sought independent assurance over the robustness of the operational practices. Such assurances include Cyber Essentials Plus and independent certification by the British Standards Institute (BSI) to the following ISO accreditations: 9001:2015 Quality Management, 27001:2013 Information Security Management, 22301:2012 Business Continuity Management and 14001:2015 Environmental Management.

Principal risks and uncertainties continued

The Group administers bank accounts on behalf of our Corporate Deductible and Protocol customers, for the purpose of claims settlement. The customer retains the economic benefit of the balance of the bank accounts, therefore the balances of these bank accounts are not recognised on the Group's financial statements. The Group annually commissions an International Standards for Assurance Engagements Service Auditor Report (ISAE 3402) on the controls operated on behalf of our large corporate customers.

We have well established and regularly tested business continuity plans that ensure we can continue to serve our customers in the face of adverse events. This was successfully implemented in March 2020 at the onset of the pandemic when we transferred all of our people to remote working. For 2021 this has evolved into a mix of both office and remote working. In addition, the Group has sole occupancy of a dedicated business continuity site which, coupled with a resilient IT platform, ensures continued operation in the event of an incident at the primary site in Taunton.

Financial risks

Market risk: The Group's primary market risk is through its exposure to equity markets. From a solvency perspective the impact of market risk is eliminated through holding low risk investments, typically cash and UK Government stock which meet both solvency capital and short-term liabilities' requirements. Equity risk is managed through the Investment Committee's careful selection of managed funds which have a sound track record, coupled with selecting appropriate passive exchange traded funds. There is regular monitoring of these investments. The equity portfolio is well diversified to protect against adverse market movements in any one segment. The Investment Committee is authorised by the Board to use derivative instruments solely to protect the value of the portfolio. Market risk is also managed through investing in a range of different instruments; from very low risk Government stock to higher risk equity investments.

Credit risk: The Group's primary credit risk is through deposit institutions, with investments held in corporate bonds and, to a lesser extent, the holdings in Government stock. Credit risk also arises through exposure to policyholder debtors, which are subject to robust credit control procedures, further protected by our policy to hold claims payments until any customer arrears are settled. Credit risk is mitigated by limiting the exposure to any individual financial or corporate institution based on their credit rating and by diversifying investments across a number of counterparties.

Interest rate risk: The Group's investment policy is to typically hold debt instruments until maturity and thus eliminate volatility from asset valuations. The returns on cash instruments are dependent on interest rates. The Investment Committee seeks to optimise returns based on the counterparty restrictions described above.

Currency risk: The Group has exposure to worldwide currencies as a result of collective investment schemes with international holdings. The primary exposure is the impact of the US Dollar exchange rate on global equity holdings and US Dollar cash holdings. The Investment Committee has discretion to use derivative instruments to protect the Sterling value of the portfolio. The running costs of our wholly owned Indian subsidiary – WPA World Class Service (India) Private Ltd – create a secondary exposure to currency.

Liquidity risk: The Group monitors its working capital on a daily basis. The cash instruments held within the investment portfolio ensure that there are always sufficient funds available to meet all operational requirements.

Strategic Report continued

Principal risks and uncertainties continued

Inflation risk

The Group is exposed to inflation risk through the investment portfolio, the economic value of which could be eroded by high inflation, and through the cost base which primarily consists of claims, technology and staff costs. We manage the inflation risk in the investment portfolio through careful supervision, which targets a return designed to maintain the real value of the portfolio. The cost base of the organisation is managed through price increases, negotiation of contracts and optimisation of the business model to ensure we operate as efficiently as possible whilst continuing to provide excellent customer service.

Pension risk

The Pension Scheme has a fully implemented liability driven investment strategy. This has eliminated all market risk and immunised the Scheme against future deficits which result from inflation and interest rate movements, as the Gilts held by the Scheme are designed to match the expected outflows of the Scheme. The primary residual risk faced by the Scheme is longevity risk. The Board is actively considering the feasibility of buying out the defined benefit pension scheme.

Climate change risk

The financial risks from climate change arise from two primary risk factors, physical and transition. Physical risks are related to weather events and longer-term shifts in climate, whilst transition risks can arise from the process of changing to a low carbon economy.

Regarding 'physical risks' WPA is well protected. Being a UK based medical insurer we have limited exposure to natural perils such as severe weather events, associated with physical risks of climate change. Our products are also annually renewed and can be repriced as new risk factors emerge or change, should climate change influence our claims costs in the future we will be able to adjust our pricing accordingly.

We also face operational risks associated with extreme weather events which could result in staff resourcing difficulties or cause disruption to our offices. These risks are managed through home working capabilities and a dedicated back up premise.

As the world moves towards a greener economy, transition risks can occur and some sectors of the economy face big shifts in asset values or higher costs of doing business, possibly through taxation on emissions.

In terms of our business, we already offset our carbon emissions such that we are carbon neutral and we are ISO 14001 accredited, demonstrating our commitment to environmental management. We also have an ambitious plan to become net carbon zero. As well as being the right thing to do, becoming net carbon zero is an important business strategy, as it will encourage individuals and companies that are also environmentally focused to want to do business with us.

Transition risk will also impact the investment portfolio through the companies we invest in. WPA is well protected as we have a well-diversified investment portfolio with limited concentration risk, mitigating the risk that we have significant exposure to impacted sectors. We carefully monitor the portfolio for potential risks that arise from climate change to avoid significant unknown exposures.

Principal risks and uncertainties continued

Going concern

The Directors of the Parent Company have evaluated, and concluded, that it is reasonable to expect the Company and its subsidiaries to remain in business for a period of at least twelve months from the date of signing the financial statements.

The evaluation considered the strength of the Group's balance sheet, noting that the Group has demonstrable liquid resources of £151.2m (2020: £153.0m) in excess of liability requirements and that the regulatory solvency coverage stood at 369% – unaudited (2020: 447%). As a not-for-profit organisation the expectation is to break even over the medium-term on the insurance business, supported by investment returns, in line with our Board approved plan. This is corroborated through the stress, scenario and reverse stress testing as shown in the ORSA and the projected regulatory solvency coverage.

The UK Government predicts that the general economic outlook will stabilise, with inflation and unemployment levels returning to those of the last decade over the next two years, and therefore a stable and positive future outlook for the business.

WPA and Section 172 of the Companies Act 2006

Section 172 of the Companies Act imposes upon directors a duty to promote the success of the Company. As a not-for-profit company with a heritage dating back to 1901, decisions taken by the Board have always considered long-term consequences in order to safeguard the Association's future.

In March 2021 the Board adopted a revised Code of Corporate Governance, based on the Financial Reporting Council's 2018 code but adapted to reflect that WPA does not have shareholders. The code adopted identifies the Association's stakeholders and makes clear that they are to be taken into account when making decisions.

The Board's Approach

In the Schedule of Matters Reserved for the Board, there is a section dedicated to Corporate Governance which makes clear that the Directors should consider the balance of interests between customers, members, employees, the community and any other relevant stakeholder. The Schedule of Matters Reserved for the Board is reviewed annually.

The Chairman is responsible for co-ordinating the activities of the Non-Executive Directors, he does not control or manage them, thereby allowing them to be independent in their decision making. In turn, each Non-Executive Director, annually attests that they are aware of their duties under Section 172 and pay due regard to those duties when making decisions.

Stakeholders

As a private company, limited by guarantee, WPA does not have shareholders. WPA's main stakeholders are our customers, employees, suppliers and other business relationships, regulators and the wider community including our members.

The Association recognises the importance of all stakeholders in delivering its strategy and long-term business sustainability. Our customers are at the forefront of all that we do and a key factor in any decision taken by the Board.

Strategic Report continued

WPA and Section 172 of the Companies Act 2006 continued

On a monthly basis, the Board receives an update from the Customer Outcomes Meeting, attended by the Executive Team and Senior Management. The Customer Outcomes Dashboard is an innovative tool which enables drill down to a granular level and contains key performance indicators such as: feedback received from customers by way of service satisfaction scores; compliments and complaints data; along with customer retention figures and departmental service standards. Our employees are trained to treat customers as they would wish to be treated themselves.

Our employees are the voice of WPA and provide our customers with excellent service at what is, very often, a difficult time for the customer. Our employee retention is excellent with average tenure of 11 years. We recognise that the strength of the Group is in the employees and by fostering closer teamwork we can continually improve the business. As undertaken in the previous two years, an external third party company was engaged to carry out a Group staff survey, the results of this recognise continuing improvements, as measured through an increase in our Net Promoter Score to 50, and provide further areas to explore and bolster. The staff surveys follow from the Board's commitment to employee engagement and, whilst employee experience is a key consideration for the Board, it is subject to the oversight of the Personnel Committee.

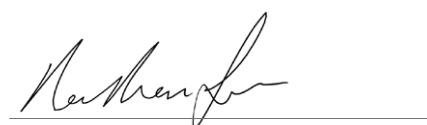
Our supplier and business relationships are forged on fairness and with a view to maintaining long-standing and equal relationships. In line with our customers we treat our suppliers as we would wish to be treated ourselves – our analysis shows we pay 90% (2020: 86%) of invoices within 30 days. The increase brings the ratio back into line with 2019; the decline in 2020 was attributed to the fact that some invoices were received in the post and there was a delay in approval when the majority of our staff worked from home. The approval of any material business relationship is a matter reserved for the Board.

Key Decisions

Following the key decisions of 2020 not to profit from the pandemic and therefore provide rebates for our customers, and the safety of our employees and suppliers in providing an environment which allowed flexibility and agility, these items continued to be seen as primary concerns in the continuation of the Covid-19 pandemic.

Other key decisions in the normal course of business surround insurance, operational and financial issues as these are the key risks faced by the Association. In making any such decision, the Board and its Advisory Committees pay due regard to stakeholder interests and promoting the long-term success of the Association.

This report was approved for issue by the Board of Directors and signed on its behalf by:



Nathan Irwin *Chief Executive*

17 March 2022

Directors' Report

Directors' interests

At no time during the year did any of the Directors have a material interest in a significant contract with the Company or any of its subsidiaries. During the year the Company purchased third party indemnity management liability insurance on behalf of the Directors and Officers against any liability or breach of trust in relation to the Company and any of its subsidiaries. Details of related party transactions are shown in note 19.

Director independence is considered as part of the Corporate Governance Framework on page 22.

Donations

During 2021 no political donations were made or expenditure incurred. In 2020 WPA donated the sum of £250,000 to The WPA Benevolent Foundation Limited, a company registered in England and Wales with the objective to promote healthy activity amongst the young, encourage the preservation of good health and change children's perceptions as to their potential lifetime opportunities. There was no donation to the Benevolent Foundation in 2021.

Employees

The Company is fully committed to developing all employees to achieve its business objectives and is proud of providing a place of opportunity through its training and development programmes.

Employees at all levels are aware of the broad aims and objectives of the organisation and are provided with information on all matters concerning them. This is facilitated by the Employee Voice – this forum reports to the Personnel Committee, the Chairman of which is a Non-Executive Director who provides updates to the Board. The Board also receives the results of the Staff Survey. The Board views employees as stakeholders and considers employee interests when making decisions. For example, the recognition of employees' needs in terms of working from the offices or from home has been a consideration.

There is full involvement and communication of the Company's performance through company meetings, monthly quality statistics and the partnership-for-excellence reward scheme. Company meetings have been adapted to recognise the existence of hybrid working through recording the message and making this available to all employees. The updates given cover a range of topics, including an update from the staff survey, health and wellbeing updates, and the financial and economic factors affecting the performance of the business.

The Company is an equal opportunities employer. As part of this policy the Company gives full and fair consideration to applications for employment made by disabled persons. Full regard is given to training, career development and promotion of disabled persons recruited into the Company or becoming disabled during their employment.

The Board is committed to supporting all staff in balancing their personal responsibilities with work commitments; accordingly approximately 31% of the workforce have chosen to utilise part-time working and overall 39% of the workforce have taken advantage of flexible hours arrangements.

Customers and Suppliers

Customers remained at the forefront of the Board's decision making, through consideration of insurance, operational and financial issues. With the pandemic still causing economic ripples, the retention product, launched in April 2020 as a way of reducing premiums for customers whilst protecting their underwriting, was continued where appropriate through discussion with affected customers.

Our ethos of treating others as we would wish to be treated also extends to our suppliers. This can be measured in a practical sense by the high percentage of invoices we pay within thirty days, as noted in the Strategic Report.

Directors' Report continued

Energy and Carbon Information



WPA recognises its responsibilities for the protection of the environment and the impact its activities may have on the environment. WPA is certified as a CarbonZero company, through CO2balance's Gold Standard and Verified Carbon Standard carbon offset projects and has the ambitious environmental strategy of achieving NetZero by 2035.

WPA is also independently certified by the British Standards Institute to ISO14001, the Environmental Management Standard which provides a framework for setting the organisations environmental objectives and commitment to continual improvement. This includes a commitment to the prevention of pollution locally, regionally and globally.



During 2021, we met our environment objectives which included: maintaining electricity consumption to no more than the average of the previous three years, taking into account seasonal trends and the Covid-19 pandemic; reducing the usage of paper and waste production by at least 1% each year; and at least 50% of paper being purchased from responsible sources.

We are very fortunate with the location of our offices in that we have a good amount of outside space. We utilised a section of the space in 2020 to plant a wildflower meadow. The wildflower meadow, provided shelter and food in 2021 for important pollinators including bees, which are in decline in the UK. Wildflower meadows have the potential for a net removal of carbon dioxide from the atmosphere. Reduced mowing, fertilisation, pesticide and herbicide treatments of wildflower areas lower greenhouse emissions, air and water pollution associated with these practices. The wildflower meadow was cut back in the autumn, with the trimmings allowed to sit for a few days so that their seeds dispersed back into the soil. The grass was kept short to stop it from taking over and allowing sunlight to reach the for a flourishing meadow in 2022.



During 2021, WPA consumed 565,297 kWh of electricity (2020: 576,625 kWh). This figure includes the regular recharging of electric and plug-in hybrid vehicles. Electric and hybrid (plug-in and non-plug-in) vehicles make up 73% of the WPA vehicle fleet; the total fleet was reduced by 8% during 2021. The annual quantity of energy consumed for 2021 from stationary or mobile activities for which the business is responsible involving the combustion of gas was: 467,836 kWh (2020: 550,910 kWh).

The 2021 annual quantity of emissions in tonnes of carbon dioxide equivalent (CO₂e) was 222.6 (2020: 238.8), made up of 85.7 tonnes of CO₂e for gas (2020: 101.3), 120.0 tonnes of CO₂e for electricity (2020: 134.4), and 16.9 tonnes of CO₂e for transport (Q1 2020: 3.1). It is pleasing to see that both the electricity and gas usage have reduced compared to 2020. The reported transport usage for 2021 has increased from the reported usage in 2020, which only included the first quarter of 2020 due to Government restrictions and remote working in the remainder of 2020.

For the calculation of its Intensity Ratio, as an insurer, WPA has adopted the tonnes of CO₂e per £ million of income ratio. For 2021, using the figures available this is: 1.79:£1m (2020: 2.31:£1m).

The carbon conversion methodology adopted is GHG Reporting Protocol – Corporate Standard and ISO 14064-1:2018. WPA is also audited by Abricon to Energy Savings Opportunity Scheme regulations and was last audited in November 2018.

Statement of disclosure of information to the auditor

The Directors confirm, at the date of this report and so far as each of them is aware, that firstly, there is no information relevant to the audit of the Group's consolidated and Company's financial statements for the year ended 31 December 2021 of which the auditor is unaware; and secondly, they have taken all steps that ought to have been undertaken as part of the duties of a director to ensure awareness of any audit information and to establish that the Group's and Company's auditor is aware of that information. This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditor

WPA, in accordance with the Companies Act 2006 (as amended), is required to rotate its audit firm after no more than 20 years, and will look to rotate no later than 2033. The Audit is scheduled for retender in 2023. Deloitte LLP is the current auditor and a resolution to reappoint Deloitte LLP as auditor will be proposed at the Annual General Meeting.

Statement of Directors' responsibilities

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

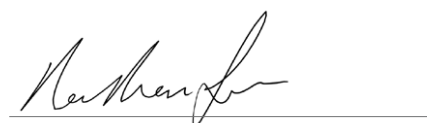
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- i. properly select and apply accounting policies;
- ii. present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- iii. provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- iv. make an assessment of the Company's ability to continue as a going concern.

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

This report should be read in conjunction with the Strategic Report as a number of requirements, such as principal risks and uncertainties and the future outlook, are disclosed therein.

This report was approved for issue by the Board of Directors and signed on its behalf by:



Nathan Irwin *Chief Executive*
17 March 2022

Board of Directors and Principal Officers

Non-Executive Chairman



The Rt Hon The Earl of Cromer

Aged 75

Lord Cromer was appointed to the Board in 2004 and Chairman in 2009. He has had an extensive career as a businessman, mainly in the Far East, and has served on the boards of a considerable number of financial services companies both in the UK and overseas.

Non-Executive Deputy Chairman



Henry Kenyon FCA

Aged 71

Henry was appointed to the Board in October 2006 and Deputy Chairman in 2017. He has served on a number of boards including other insurance companies and was previously a partner of PricewaterhouseCoopers LLP (PwC) specialising in risk management, accounting and advisory work mainly within the financial services sector.

Independent Non-Executive



John Pugh FCA *Senior Non-Executive*

Aged 71

John was appointed to the Board as a Non-Executive Director in 2015, having previously been employed as Finance Director from 2004 until his retirement in 2013. Prior to 2004, he had spent the previous nineteen years as a finance director in a range of industries, including seven in investment management.



John Chester MS FRCS FRCP

Aged 66

John was appointed to the Board in 2010. He stepped down from the position of WPA's Chief Medical Officer in March 2020 but remains on the Board as the Non-Executive Director with responsibility for oversight of medical governance. John has been a Consultant General and Vascular Surgeon to the Taunton and Somerset NHS Trust for 28 years, and during that time has served as Clinical Director of Surgery, Somerset Academy Medical Dean and Chairman of the Court of Examiners of the Royal College of Surgeons of England.



Jasper Gill FRCS MBA *Chief Medical Officer*

Aged 48

Jasper was appointed to the Board in February 2019 as a Non-Executive Director, becoming WPA's Chief Medical Officer in March 2020. He is a Consultant Surgeon who has held a number of senior medical management posts in the NHS, latterly as Associate Medical Director for Surgery, Anaesthesia, Theatres and Critical Care.



Rosalind Johnson MA

Aged 71

Rosalind was appointed to the Board in 2020 as a Non-Executive Director having previously been employed as WPA's Legal Director and Company Secretary from 1990 until her retirement in 2014. A qualified solicitor and mediator, Rosalind has over 30 years of legal experience.

Independent Non-Executive continued



Robert Lee *MA FIA*

Aged 64

Rob was appointed to the Board in 2009 and Chairman of the Risk Committee in 2014. He was previously a director at AXA Life and currently serves on Actuarial Committees both in the UK and overseas.



Anne Obey *OBE FCA*

Aged 59

Anne was appointed to the Board in October 2020. Anne is Director of Financial Reporting at the Nationwide Building Society, and is a qualified chartered accountant with extensive experience in governance, risk management and control as well as internal and external reporting. In 2019, Anne received an OBE for her services to financial reporting and sustainable energy. Anne chairs the Board of Trustees for the Centre for Sustainable Energy and is a Governor of Coventry University.

Chief Executive



Nathan Irwin *FCA*

Aged 42

Nathan was appointed as Chief Executive in August 2019, having previously served as the Association's Chief Financial Officer for six years. Nathan was previously a director at PwC, specialising in financial services.

Executive Directors



Rod Bramston *BSc (Hons) MBA Retail and Commercial*

Aged 59

With 20 years' experience at WPA, Rod leads the retail and commercial SME sectors. Previously, Rod was a marketing director at GE Capital, having earlier gained extensive international marketing experience with Procter & Gamble's Pharmaceutical Division in Australia, USA, Benelux and the UK.



Andrew Haworth *LLB (Hons) Group Counsel and Director of Legal Affairs*

Aged 52

Andrew joined WPA in June in 2014 and was appointed to the Board in October 2014, having previously been an external legal advisor to the Association for more than 10 years as a partner in a firm of solicitors.



Brian Goodman *BSc (Hons) Corporate*

Aged 59

Brian has over 30 years of experience across a range of functions within WPA and is also Chief Executive of the Group's specialist healthcare administrator WPA Protocol Plc. Brian was a quantity surveyor in the construction industry prior to joining WPA.

Board of Directors and Principal Officers continued

Executive Directors continued



Mark Southern *Sales and Marketing Director*

Aged 44

Mark joined WPA in 2008 and has held a number of roles across the business. He is currently the Sales and Marketing Director with responsibility for Distribution across WPA. He is also the Chief Executive of the Group's health insurance intermediary, WPA Healthcare Practice Plc. Prior to joining WPA, Mark was a Royal Marines Commando Officer.

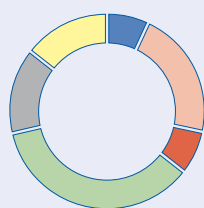


Peter Venables FCA *Chief Risk Officer*

Aged 39

Pete joined the Board as Chief Risk Officer in March 2020. Prior to joining WPA, Pete was a director at PwC, where he spent 14 years specialising in Financial Services within the UK and in Hong Kong. During this time, he gained extensive experience across insurance, banking and asset management.

Board Skills



- Actuarial
- Insurance
- Investment
- Financial Risk and Accountancy
- Legal
- Medical

Board Position Changes

Mr Venables has been appointed as the Director who oversees Diversity & Inclusion.

Board Changes

There were no changes to the composition of the Board during 2021.

In accordance with its Articles of Association, WPA maintains a greater number of Non-Executive than Executive Directors.

Executive Officers



Donna Eavis FCMA *Chief Actuary and Chief Finance Officer*

Aged 52

Donna has been with WPA for 20 years, firstly as the Finance Manager, then Head of Finance and more recently Chief Finance Officer. Prior to WPA, Donna worked in a number of finance roles around the UK including Debenhams, the University of Surrey and the Robert Gordon University.



James Searle *Chief Operating Officer*

Aged 45

Jim has been at WPA for four years, first as Chief Information Officer and then, for the last two years, as Chief Operating Officer. Previously, Jim was a partner at the consultancy company Control Risks and, before that, an Officer in the Army.

Company Secretary



Nicola Royle LLB (Hons)

Aged 34

Nicola joined WPA in 2015 and has been the Association's Company Secretary since July 2016. Nicola qualified as a solicitor in 2013, specialising in commercial litigation and commercial law.

Directors and Officers of subsidiaries not listed above

Theresa Attree Cert CII

Kimberley Bell LLB (Hons)

Jenna Bishop Cert CII

Neville Kavarana MBA

Russell Moore

Denize Spierenburg Cert CII

Katy Trowell Cert CII

Ellis Turley Cert CII

Chief Actuary

Donna Eavis FCMA

Statutory Auditor

Deloitte LLP

Bankers

National Westminster Bank Plc

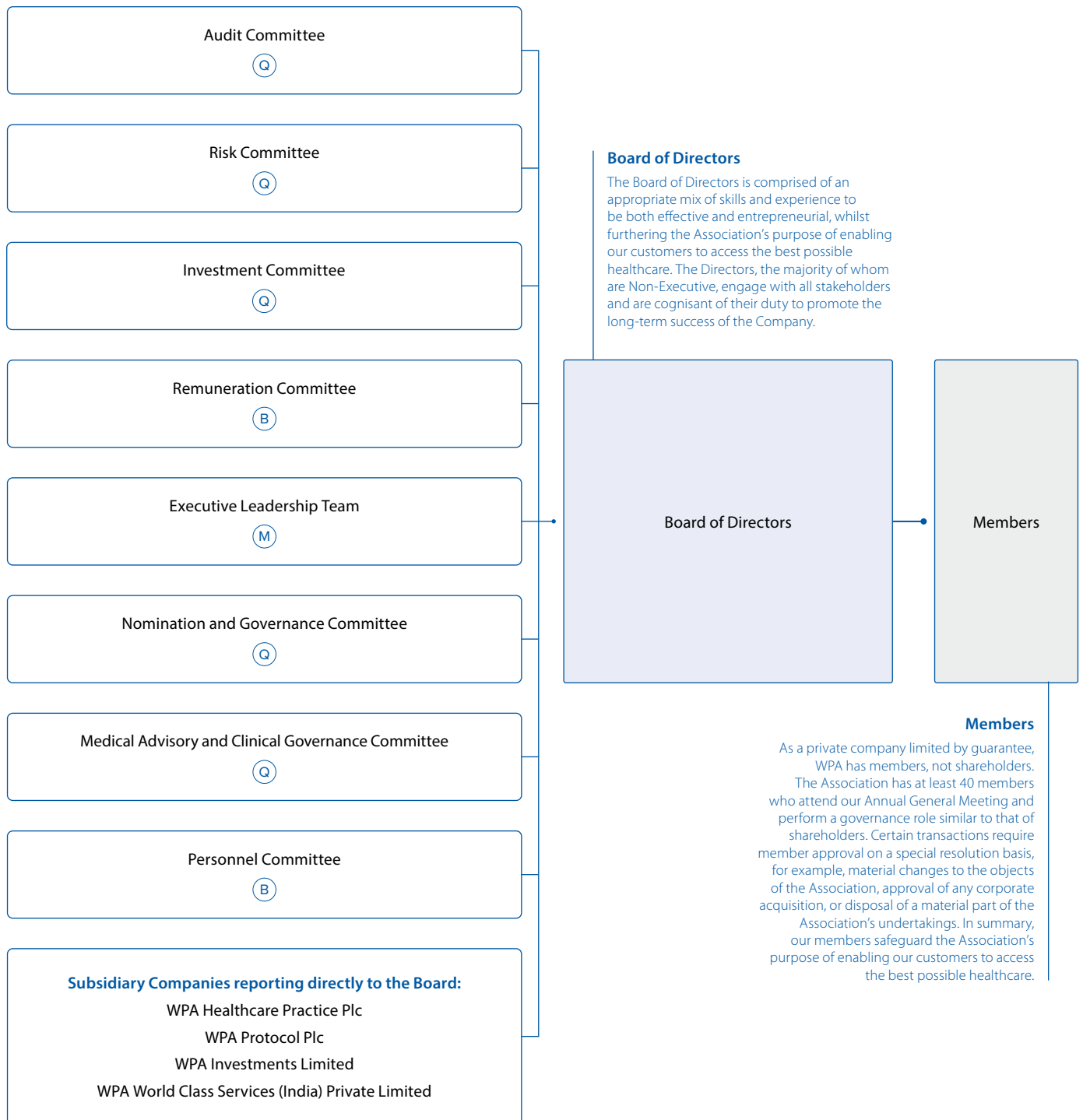
Committee Members

For Committee composition, please see the relevant Committee within the Corporate Governance section from page 22 onwards.

Board of Directors Attendance Register 2021

	Board excluding AGM	Audit	Risk	Remuneration	Nomination and Governance
Executive					
Nathan Irwin	7 of 7	–	–	–	4 of 4
Rod Bramston	6 of 6	–	–	–	–
Brian Goodman	6 of 6	–	–	–	–
Andrew Haworth	6 of 6	–	–	–	–
Mark Southern	6 of 6	–	–	–	–
Peter Venables	7 of 7	–	–	–	–
Non-Executive					
Lord Cromer	4 of 6	–	–	1 of 2	2 of 4
John Chester	6 of 6	–	–	–	–
Jasper Gill	6 of 6	–	–	2 of 2	4 of 4
Rosalind Johnson	6 of 6	–	5 of 5	–	–
Henry Kenyon	7 of 7	3 of 3	2 of 2	2 of 2	4 of 4
Rob Lee	7 of 7	6 of 6	5 of 5	–	–
Anne Obey	7 of 7	6 of 6	5 of 5	–	–
John Pugh	7 of 7	6 of 6	5 of 5	2 of 2	4 of 4

System of Governance



Board of Directors

The Board of Directors is comprised of an appropriate mix of skills and experience to be both effective and entrepreneurial, whilst furthering the Association's purpose of enabling our customers to access the best possible healthcare. The Directors, the majority of whom are Non-Executive, engage with all stakeholders and are cognisant of their duty to promote the long-term success of the Company.

Members

As a private company limited by guarantee, WPA has members, not shareholders. The Association has at least 40 members who attend our Annual General Meeting and perform a governance role similar to that of shareholders. Certain transactions require member approval on a special resolution basis, for example, material changes to the objects of the Association, approval of any corporate acquisition, or disposal of a material part of the Association's undertakings. In summary, our members safeguard the Association's purpose of enabling our customers to access the best possible healthcare.

- (A) = Annual meetings
- (M) = Monthly meetings
- (Q) = Quarterly meetings
- (B) = Biannual meetings

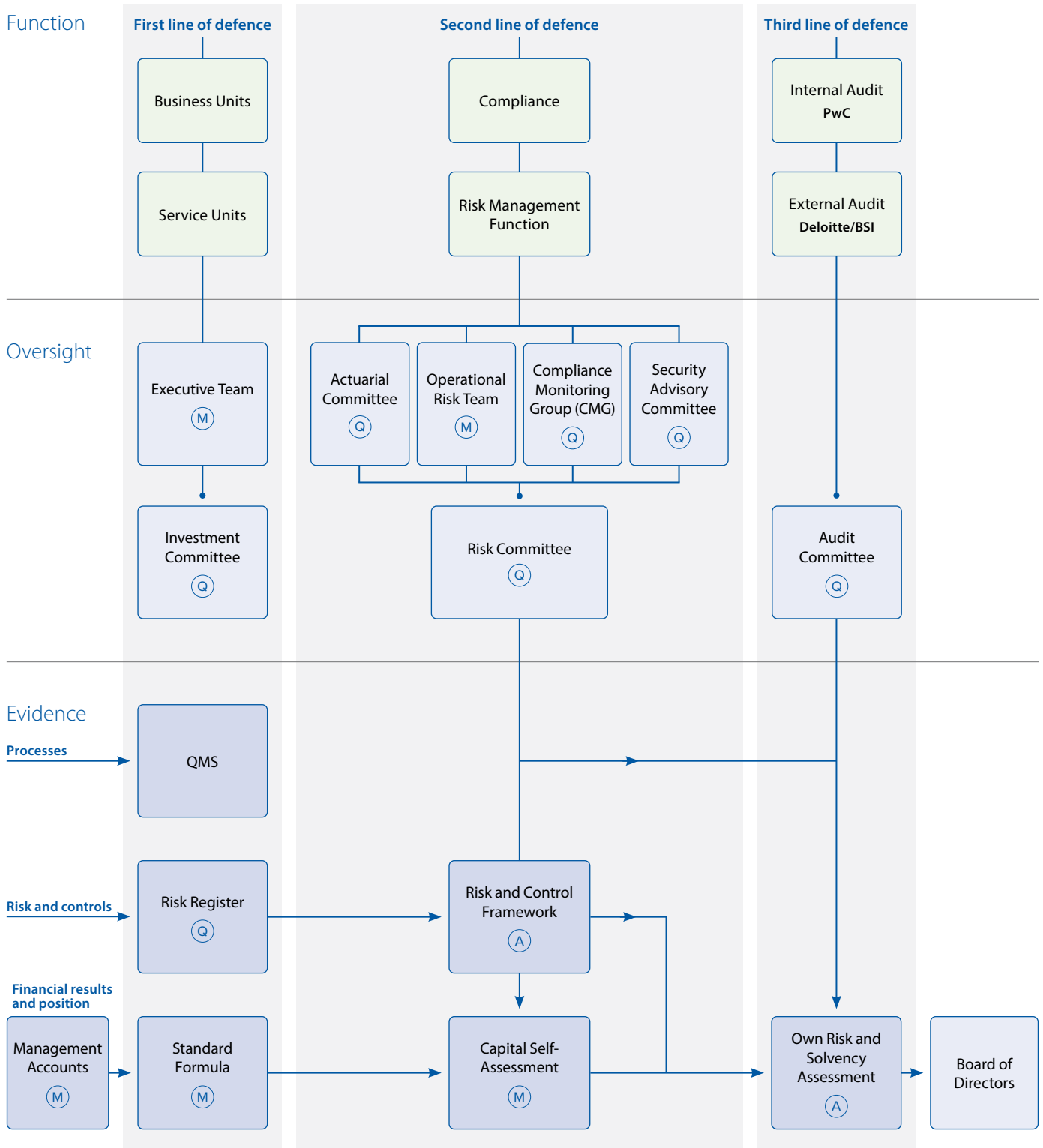
Whistleblowing

The Whistleblowing Policy and Procedure, along with the Anti-Corruption and Bribery Policy are matters formally reserved for the Board and are reviewed annually. Thereafter, the policies are circulated to all staff with a reminder about how to raise concerns.

There were no instances of anyone blowing the whistle during 2021.

System of Governance continued

The system of governance is designed to enable the Board to lead with three lines of defence, evidence and oversight of functions.



□ = Function | □ = Committee | □ = Documents

Corporate Governance

The Board, comprising Executive and Non-Executive Directors, has responsibility for the overall leadership and direction of WPA including determining the strategic direction of the Group to include values and culture. Collectively, the Board is responsible for the Group's system of corporate governance. The Association recognises that good and effective corporate governance is key to the long-term success of the Association. We consider the FRC's UK Corporate Governance Code 2018 as a good starting point, however, as a private company limited by guarantee, without shareholders, not all of the provisions and principles apply. Accordingly, the Association adopts and complies with its adapted Code of Corporate Governance, which mirrors the FRC's 2018 Code in so far as it applies. We are committed to continually improving our governance and, as recognised during the externally facilitated Board Effectiveness Review of 2019, the Board has committed to improving upon the already well-established governance arrangements of the Association.

The Independent Non-Executive Directors are greater in number than the Executive and, with their particularly wide experience, their role is to bring independent judgement to the Board. Annually, the Nomination and Governance Committee, chaired by the Chairman of the Board, considers independence. Each of the Non-Executive Directors are reviewed against the seven independence criteria at provision 10 of the FRC's Code. The following explanations are provided:

- For Non-Executive Directors that were previously employees of the Association either:
 - the requisite period of time elapsed before their appointment to the Board as a Non-Executive; or
 - the Board considered that given the short-term nature of WPA's insurance contracts sufficient time had elapsed for them to be considered independent.
- For those Non-Executive Directors that are members of the defined benefits pension Scheme, it had been fully funded using a liability driven investment strategy and thus does not present a material conflict of interest between the Scheme and WPA. This potential conflict is acknowledged, and should a Pension Scheme matter arise two Non-Executive Directors will absent themselves from discussions. This is documented each year as part of their signed independence declaration.
- Each Director is required annually to declare any other interests. These are disclosed to the Board and approved only when it accepts there are appropriate safeguards to mitigate any potential conflict.
- Although tenure is an important independence consideration, the Board considers the preservation of the Association's values and culture along with an individual's personal integrity to be of paramount importance. These attributes, along with continued demonstration of effective challenge both inside and outside meetings, demonstrate independence.

With the above explanations accepted, the Board considers all of the Non-Executive Directors to be independent.

The structure and composition of the Board is kept under review and the Board, with input from the Nomination and Governance Committee which monitors the Association's succession plan, considers the identification and nomination of new Directors and the continuation of existing Directors in office.

A meeting of the Independent Non-Executives, both with and without the Chairman, is held annually. The Independent Non-Executive Directors have access to any information they require and, as part of their role, regularly spend time engaging with staff in all parts of the business including the observation of the Group's management committees.

Corporate Governance continued

The Board is aware of its stakeholders and engages with them, taking into consideration (when appropriate) their views, when making decisions. As highlighted, in addition to its Code of Corporate Governance, the Board has a Schedule of Matters specifically reserved to it, which can only be amended by the Board itself and which is reviewed annually. The Statement of Principles (Terms of Reference) for each of the Board's Advisory Committees ensure that reserved matters are correctly referred to the Board for decision.

There is a formal procedure for the Board's Advisory Committees and each Director to obtain independent professional advice at the Company's expense, should this be necessary in the exercise or furtherance of their duties.

The Company is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) as a general insurer. The Board and Senior Management are regularly briefed on existing and proposed regulation. The Company routinely monitors its compliance with regulatory requirements at all levels and reports the findings formally to the Audit and Risk Committees. Both the Audit and Risk Committees each give due consideration to all relevant laws and regulations, along with the provisions of the FCA and PRA and any other applicable rules, as appropriate.

Further, and amongst its other duties, the Risk Committee is responsible for supporting the Board through an oversight role in ensuring that: the WPA Group remains compliant with relevant legislation and regulation; and the insurance activities do not expose the WPA Group to significant adverse financial results. The Audit Committee complements this by holding responsibility for reviewing the systems in place to ensure the Group's compliance with the regulatory reporting requirements of the Financial Conduct Authority and Prudential Regulation Authority. Each of these Committees in turn report to the Board.

Governance Framework

The Board reviews the Group's strategic plans and objectives at least annually and approves budgets and plans in light of these. The Board, following interrogation by the Risk Committee, formally approves the risk appetite statements and related policies and the assessment of risk and appropriate controls. There are detailed financial control procedures, applicable across the business; the Board receives regular reports on financial and operational matters. These include monthly ORSA snapshots, Customer Outcomes information and reports on financial performance both against the approved business plan and by comparison with the previous year and reporting on investment performance, liquidity and solvency.

The Board has always received a mixture of written and verbal updates. During 2021:

- The Board conducted virtual video meetings from January to March, it being noted that the Association's Articles of Association permit virtual meetings and that the Chairman ensured that all Board members could see, hear and actively participate in each meeting. The Board moved to hybrid meetings from April onwards;
- Board papers continued to contain more written updates, both from Advisory Committee Chairs and the Executive, to ensure that the Board's time could be effectively used and that the Non-Executive Directors could adequately challenge the Executive remotely.

Governance Framework continued

The Board Advisory Committees are set out on page 19. They each have a written Statement of Principles (Terms of Reference), which clearly define authorities and responsibilities.

The minutes of all the Board Advisory Committees are placed on the Agenda of the Board. Committee remits and membership are kept under review by the Nomination and Governance Committee, at least annually. As appropriate, the Committees comprise members who are not directors, where they bring a particular expertise.

Board Effectiveness Review

The last Board Effectiveness review, commissioned by the Nomination and Governance Committee, was reported to the Board in 2020. There were a small number of minor findings, all of which have been addressed and closed.

During year the Audit and Risk Committees both conducted effectiveness reviews. Both reviews found the Committees to be effective, with a small number of recommendations proposed. These recommendations have been actioned or noted, as appropriate.

Audit Committee

John Pugh *FCA Chairman*

Robert Lee *MA FIA*

Anne Obey *OBE FCA*

The Committee meets the requirement that at least one member of the Committee has recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Association operates.

The Audit Committee meets at least four times annually and is comprised of Independent Non-Executive Directors. Senior and executive management attend the Audit Committee meetings by invitation. The Chief Executive, Chief Finance Officer, Chief Risk Officer, Head of Internal Audit and a representative of the external auditor normally attend meetings.

The members of the Committee meet regularly with and without senior and executive management and the internal and the external auditors. The Committee members ensure an independent and professional relationship is maintained with the auditors.

The Audit Committee's remit extends across the WPA Group and has oversight of senior and executive management, internal audit and external audit along with any other assurance providers.

The Committee undertook an internal Effectiveness Review. This concluded that the Committee is effective, and the small number of minor recommendations have been actioned or noted.

Work of the Audit Committee

The Audit Committee monitors the integrity of the financial statements and reviews any significant financial reporting judgements contained in them. In accordance with the formal Schedule of Matters reserved for the Board, the Committee provides advice regarding the Annual Report and Accounts and the Solvency and Financial Condition Report (SFCR). The Committee has oversight of the SFCR before it is approved by the Board. The Board has elected to have the SFCR audited externally at least every three years. The SFCR was last subject to external audit by Deloitte LLP in 2020. The SFCR is published on the WPA website.

Corporate Governance continued

Audit Committee continued

The Audit Committee reviews the annual financial statements before submission to the Board to be satisfied that there are no significant unsettled issues between management and the external auditor which would affect the truth and fairness of the statements, focusing particularly on:

- Critical accounting policies and practices, and any changes in them;
- Major judgemental areas;
- Clarity of disclosures;
- Significant adjustments resulting from the audit;
- Going concern assumption; and
- Compliance with accounting standards and other legal requirements.

The claims reserve is the most significant estimate in the financial statements. It provides for the ultimate cost of settling all claims incurred in the year which are not settled at the balance sheet date. The significance of the estimate means that it comes under close scrutiny by the Audit Committee at the time of reviewing the accounts, with the retrospective accuracy of the reserve subsequently discussed at points throughout the year.

In addition to the work outlined above the Audit Committee reviewed and considered the valuation of illiquid investments held by the Association and the methodology for revenue recognition. The Committee are satisfied that the investment valuation method adopted by management is appropriate. The Committee are satisfied that the reversion to the pre-pandemic revenue recognition methodology is suitable. As a consequence of this reversion the auditors have deemed that revenue recognition is no longer a key audit matter.

Internal Audit

The Audit Committee monitors and reviews the internal audit function for the WPA Group. The internal audit function is outsourced to PwC.

Internal audit makes up part of the internal controls of the Association. The Committee reviews and approves the internal audit programme and subsequent reports to ensure that the function is independent, adequately resourced and has appropriate standing within the WPA Group.

For 2021, internal audits covered premiums, claims, distribution activities and regulation compliance. There were no pervasive issues identified in any of the reports.

The Committee is satisfied that the internal audit work undertaken by PwC makes a positive contribution towards ensuring that the WPA Group has appropriate controls, governance and risk management processes in place. The objective findings and recommendations help to maintain the high business practice standards of the WPA Group.

External Audit

The Committee assists the Board in ensuring that the external audit is conducted in a thorough, objective and cost-effective manner. The Committee annually assesses the effectiveness of the audit process and the external auditor's independence and objectivity taking into account relevant law, regulation, the ethical standard and any other professional requirements. The nature and extent of any proposed non-audit work to be carried out by the external auditors requires the Committee's approval. Should the Committee authorise any non-audit services it would first have to satisfy itself that the proposed services do not impair the external auditor's objectivity or independence.

Audit Committee continued

During 2021, the only non-audit service undertaken by the external auditors was the assurance obtained on the Group's International Standards for Assurance Engagements report.

Upon completion of the 2021 year end Deloitte LLP will have been WPA's auditor for nine years and WPA intends to tender the appointment of the external auditor at least every ten years. The Audit Committee, on behalf of the Board, will take charge of this tender process in 2023. The Committee reviews the appointment and fees of the external auditor each year and confirmed that they do still continue to represent value for money. In conducting this review, audit quality was the Committee's primary concern and we do not have any concerns with the quality of the audit performed by Deloitte LLP. The Committee has recommended to the Board that a resolution be put before the members of the Association in a General Meeting to consider the re-appointment of Deloitte LLP as statutory auditors. The Committee holds a formal private meeting at least once a year with the internal and external auditors.

At the end of 2019 the Committee was considered as part of the externally facilitated independent Board Effectiveness Review. During 2021 the Committee undertook an internal effectiveness survey. No significant findings were noted.

In summary, for 2021 the Committee recommended and the Board was satisfied that both the internal and external auditors were effective.

Risk Committee

Robert Lee *MA FIA* *Chairman*

John Pugh *FCA*

Anne Obey *OBE FCA*

Rosalind Johnson *MA*

The Risk Committee meets at least four times annually and is comprised of Independent Non-Executive Directors. Senior and executive management attend Committee meetings by invitation. The Risk Committee is to meet at least annually in private session with the Chief Risk Officer, and separately with the Actuarial Function Holder and Head of Compliance.

The Risk Committee acts as a steward of the Risk Management Framework for the WPA Group and provides objective oversight of the risk management process with regard to risk identification, assessment, appetite, strategy and management. The Risk Committee has oversight of senior and executive management and receives reports from the Compliance Monitoring Group, the Distribution Monitoring Group, the Operational Risk Team, the Security Advisory Committee and the Actuarial Committee.

The Risk Committee supports the Board in ensuring WPA remains compliant with relevant legislation, advises the Board on the appropriateness of the ORSA, the Risk Appetite Statements and the Regular Supervisory Report and promotes a risk awareness culture throughout the WPA Group. The Committee receives assurance from a variety of sources provided by both dedicated WPA staff and professional third-party organisations. The Board retains overall responsibility for internal control and the identification and management of business risk.

Corporate Governance continued

Risk Committee continued

Work of the Risk Committee

The Risk Committee is appraised of, and considers, strategic and emerging risks, for example the impact of any government or regulatory changes and has processes in place to assess and adapt to any such change. Where appropriate, the Committee will also hold specific deep dive sessions to allow for further discussion and review of the key risk areas or documentation.

Cyber security remains a key risk faced by all businesses and WPA is no exception. The Group has a dedicated Security Advisory Committee, an Executive Committee which reports to the Risk Committee on a regular basis. The Security Advisory Committee have external advisors to provide assistance to the Non-Executive Directors and provide independent challenge to the business. The Board is appraised of cyber security risks and continues to monitor and adapt to the threat presented by this ever-changing area.

There have been no ORSA trigger events during 2021. The ORSA was reported to the Committee and Board in March.

In line with the PRA's aim to ensure that operational resilience is a pillar of prudential supervision of equal importance to financial resilience, the Committee has ensured that operation resilience is a focus for the business and the Board. The Group's adherence to the ISO Standard on Business Continuity and its accreditation (certified by the British Standards Institute (BSI)) brings an effective discipline for planning for potentially disruptive events.

The Committee undertook an internal Effectiveness Review. This concluded that the Committee is effective, and the small number of minor recommendations have been actioned or noted. It was noted that the Committee has regular scrutiny and oversight of the risk management framework.

For 2021, the Risk Committee reported to the Board that it is has been satisfied that the Risk Management Processes of the WPA Group continue to operate effectively.

Risk Management

The Board and Senior Management are responsible for the identification and evaluation of key risks applicable to the Group, whether from internal or external sources.

The assessment of risk is kept under regular review by the Risk Committee and includes strategic and corporate issues, insurance, operations, financial (including market, climate related, credit and liquidity), pensions and other risks related to the achievement of the Group's business objectives.

The implementation and management of the internal control and risk management programme has been delegated to the Chief Risk Officer. Control policies and procedures are clearly set out in the Group's Risk Management Framework which captures the risks faced by the business together with the related risk appetite, mitigating controls and the monitoring procedures that provide regular oversight and review. The Risk Management Framework reviews are captured in the ORSA and reported on a regular basis to the Board.

The Board is satisfied that the system of internal control and risk management is appropriate for the Group's needs.

Investment Committee

Peter Venables *FCA Chairman*
Nathan Irwin *FCA*
The Rt Hon The Earl of Cromer
Donna Eavis *FCMA*
Mark Eggar *FRM ACMA*
Henry Kenyon *FCA*

The Investment Committee operates under a specific mandate from the Board, which includes clear guidelines based on the objectives of the Group and emphasis is placed on communicating these to all appointed investment managers. The overriding aim of the investment strategy is to comfortably maintain the Group's capital to meet regulatory requirements, and secondarily to preserve the real value of the portfolio.

Materiality for the Group is defined at just over £1 million and the Schedule of Matters reserved for the Board, together with the Committee's Statement of Principles, provide an effective authority and reporting framework for the Committee.

Medical Advisory and Clinical Governance Committee

Jasper Gill *FRCS MBA Chairman and Chief Medical Officer*
Philip Barclay *FRCA*
Keith Bates *FRCS*
John Chester *FRCR FRCS*
Alan Dunkley *FRCS*
Stephen Falk *FRCR*
Lee Lim *DFFP*
Olivia Whiteside *FRCS*

The Medical Advisory and Clinical Governance Committee provides advice to the Board and to Senior Management on any medical matters related to private medical insurance. It advises on developments in medicine and medical treatments, on appropriate levels of benefit and related professional fees, on specialists' recognition and clinical governance in private practice and on rules applied to medical matters in the Group's insurance and administration contracts.

The Chief Medical Officer as Committee Chairman reports to the Board on a quarterly basis and provides his opinion on whether the business has continued to operate in a fair and ethical manner.

Corporate Governance continued

Nomination and Governance Committee

The Rt Hon The Earl of Cromer *Chairman*

Jasper Gill *FRCS MBA*

Nathan Irwin *FCA*

Henry Kenyon *FCA*

John Pugh *FCA*

Responsibility

The Nomination and Governance Committee leads the process for appointments to:

- The Board;
- Board Advisory Committees;
- Positions captured under the Senior Managers and Certification Regime; and
- Subsidiaries within the WPA Group including:
 - WPA Healthcare Practice Plc; and
 - WPA Protocol Plc.

During 2021, the Committee met on four occasions.

Members

As WPA has no share capital or shareholders, overarching governance is provided by members, each of whom have an individual liability limited to £100. In accordance with the Articles of Association the appointment of members is a matter for the Board upon the recommendation of the Nomination and Governance Committee and subject to final ratification by the members in General Meeting. The Committee keeps member composition under review, using a criterion approach to future appointments.

In the first quarter of 2021, three members retired before their scheduled re-appointment. At the General Meeting, which was held with members in attendance by way of proxy through the Chairman, seven members were re-appointed in accordance with the retirement provisions of the Articles of Association, and one additional member was appointed. There is a requirement for a minimum number of 40 members and with the changes in composition through 2021, the current number is 48.

Board Composition

In addition to appointments, the Committee is responsible for maintaining an orderly succession plan. Succession, for both Executive and Non-Executive appointments, is kept under review by the Committee. The Committee has an established Board Diversity and Inclusion Policy and takes this into account when considering appointments and dealing with succession. The Board Diversity and Inclusion Policy, reviewed annually, is published on the WPA website. In summary, skills, experience and knowledge are the principal factors taken into consideration to ensure that the purpose of the Company is preserved and furthered.

Appointments and Retirements

All the Directors listed on pages 15 to 17 served as Board members throughout 2021 and up to the date of signing.

Nomination and Governance Committee continued

Board Advisory Committees

It is within the remit of the Committee to make recommendations regarding the composition of the Board's Advisory Committees. It does this with reference to the succession plan to ensure the appropriate skill and experience are present and demonstrated by each Committee. During 2021:

- A further four advisors joined the Medical Advisory and Clinical Governance Committee, to further bolster the skills, knowledge and experience on medical matters.

These appointments were made in accordance with the succession plan.

Subsidiary Governance

The Committee has oversight of all subsidiaries within the WPA Group and following the 2020 review of subsidiary composition appointed an additional Executive Director to WPA Healthcare Practice Plc's Board. This further enhanced the operational resilience of the subsidiary. In addition, one UK member of the WPA World Class Services (India) Limited Board stepped down in the year.

Gender Balance

As at 31 December 2021 there were 295 employees: 32% male and 68% female. Of the top decile of the business, comprising Executive Directors, including the Executive Team and Senior Managers, 47% are female and 53% male. A large proportion of direct reports to Senior Management are female and are considered within the Succession Plan to ensure a diverse pipeline.

WPA produce and publish on the WPA website a Gender Pay Report annually in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. WPA acknowledge that there is a gender pay gap, the primary reason being the skew effect of the Executive Directors of the Board currently being male.

WPA supports all individuals equally and is committed to developing a diverse and supportive work environment, where our employees can grow and develop to their full potential.

Other Governance Matters

The Board reviewed and approved the schedule of formal matters for its approval and the statements of principles and terms of reference for the Board and its sub-committees. The Statement of Principles have, in so far as is permitted by a company without shareholders, been closely aligned to the FRC's 2018 Code of Corporate Governance. The corporate governance section of the WPA website has been improved during the year with greater disclosure of WPA's culture, value, senior people and governance arrangements.

During the year the Nominations and Governance Committee discussed the succession plan for future non-executive directors and identified future potential candidates, one of whom is proposed to be appointed in March 2022.

The composition of the Medical Advisory and Clinical Governance Committee was enhanced with greater coverage of specialisms and geographies considered important. The MACGC are delighted to welcome four new members covering obstetrics and gynaecology, anaesthesia, orthopaedics and ear nose and throat specialists.

Looking Forward

The Board expects to make new appointments in line with its succession plan over the coming year. The appointment of new candidates is planned in advance of directors retiring to allow adequate opportunity for handover and induction.

Corporate Governance continued

Remuneration Committee

Henry Kenyon *FCA Chairman*
The Rt Hon The Earl of Cromer
Jasper Gill *FRCS MBA*
John Pugh *FCA*

The Remuneration Committee's primary objective is to support and promote the culture, strategy and long-term success of WPA. The Remuneration Committee has delegated responsibility for determining the Remuneration Policy for:

- The Board – Executive Directors;
- Senior Management Positions including the Executive Team; and
- Subsidiaries within the WPA Group including:
 - WPA Healthcare Practice Plc; and
 - WPA Protocol Plc.

The Committee is comprised of Non-Executive Directors considered to be independent. The Chairman of the Board, who was considered independent upon appointment, is a member but is not Chairman of the Committee. The Committee is Chaired by Mr Henry Kenyon, who served on the Remuneration Committee for more than 12 months before his appointment.

During 2021, the Committee met on two occasions.

The Committee undertook a review of the salaries and fees payable to Executive and Non-Executive Directors and agreed that no changes were required.

Remuneration Policy

The Committee has established a Remuneration Policy and has delegated responsibility for setting the remuneration of Executive Directors and the Chair of the Board. Workforce remuneration is reviewed by the Committee along with the alignment of incentives and rewards with culture.

These factors are taken into consideration when setting the Executive Director Remuneration Policy.

The Committee reviews the Policy for the remuneration of Non-Executive Directors but does not set the remuneration or any element of the remuneration package of Non-Executive Directors. Non-Executive Director remuneration is approved by the Executive Directors, subject to final ratification of the members in General Meeting.

The Committee ensures that no individual is involved in setting their own remuneration.

Executive Director and Senior Management Remuneration

The remuneration of Executive Directors is comprised of:

- Base salary – the core element of remuneration set to attract, fairly reward and retain Executive Directors and is reflective of their role and contribution.
- Short-term Incentive Plan – a plan designed to reward the successful delivery of the Company's strategy and major projects, based on a number of factors including customer satisfaction, risk management, quality metrics and financial results. Payments are based on performance and are always proportional and aligned to culture.

Remuneration Committee continued

- Long-term Incentive Plan – a plan making payments of a percentage of salary dependent upon the performance of the business over a four year period to recognise the long-term success of the Company including metrics around culture, ethos, reputation and financial stability.
- Pension contributions are set as a percentage of base salary.

The remuneration of Senior Management mirrors that of Executive Directors. In accordance with WPA's not-for-profit status, culture and ethos, bonus and incentive schemes are proportionate to base salary.

Recognising Excellence

The Remuneration Committee is committed to ensuring that excellence is recognised and that superior performance is rewarded by appropriate measures to avoid formulaic outcomes. Short-term incentives are reviewed regularly to ensure that the basis, targets and payments are fair, balanced and serve the needs of WPA.

Long-term Performance

The Remuneration Committee acts as the steward of the long-term incentive plan on behalf of the Board, including the making of any notional allocations and authorising the release of any payments at the end of the given allocation period as specified in the plan rules. The plan and its continuation are approved by the Board.

Employee Remuneration

Employees' base salary comprises the same elements as those for Executive Directors, albeit reflective of the role performed. The base salary is reviewed annually and for 2021 a capped increase, was implemented across the workforce, which ensured that the majority of employees received a cost of living increase which more than matched CPI. All employees of WPA can qualify for a Partnership for Excellence Scheme which is a percentage of base salary paid at the end of the year set with regard to the performance of the Company.

Non-Executive Director Remuneration

The remuneration of Non-Executive Directors is set and approved by the Board (Non-Executive Directors abstaining) upon the recommendation of the Committee and is then subject to final ratification by the members of WPA in General Meeting. As WPA is a private company limited by guarantee, the members of WPA are not remunerated but they have a limited nominal liability. Non-Executive Director remuneration reflects the time commitment and responsibilities of the role. No share options in WPA or any other WPA Group company are included as part of the remuneration package. The Non-Executive Directors confirm, as part of their annual independence declaration that they:

- Do not participate in any performance related remuneration scheme;
- Only receive their Non-Executive Director and any associated Committee fee from WPA;
- Are not dependent on their income received from WPA.

Benefits

All staff, after a qualifying period are entitled to enrol themselves and their family members in the health and wellbeing benefits provided by WPA. WPA operates a Corporate Healthcare Trust and cash plan product for staff and their families. All staff are provided with a defined contribution pension provision. Pension contributions are set in relation to basic salary only. In addition, the maternity and paternity provisions for employees were reviewed and upgraded, and a menopause policy was implemented. The Health & Wellbeing hub content has been enhanced to increase wellbeing at work through signposting. A salary sacrifice car scheme is available to all employees with two or more years' service. The scheme gives colleagues access to fully electric and plug-in vehicles with less than 75 g/km CO₂.

Corporate Governance continued

Remuneration Committee continued

In line with the company car policy, all newly purchased company cars should be electric or hybrid.

Control Clawback provisions for Executive Directors and Senior Management were implemented during 2020 via new service contracts. The clawback provisions provide for three years of recovery in line with the short tail nature of the insurance business.

Personnel Committee

Jasper Gill *FRCS MBA Chairman*

Tracy Sheen *MA FCIPD*

Neil Davidson *ACMA CMIIA*

Andrew Haworth *LLB (Hons)*

Nathan Irwin *FCA*

Lady Merrison

Ellis Turley *Cert CII*

John Chester *FRCP FRCS*

Sadie Watkins

The Personnel Committee met twice during 2021.

The Personnel Committee reviews and monitors the development and maintenance of effective human resource strategies. The Group has rigorous recruitment and selection procedures, coupled with induction, further training and regular assessments of all employees.

The Committee reviews human resource strategies and practices for compliance with current employment legislation, to ensure structured training in both business specific skills and, where appropriate, personal development. The Committee also has oversight of the Gender Pay Report and the Modern Slavery Statement.

Employees views are represented via the Employee Voice committee. The Employee Voice consists of elected staff members from across the business and service units who meet at least quarterly. The minutes are circulated to all staff members and received by the Personnel Committee, further a representative of the Employee Voice attends the Personnel Committee.

For the third year in succession, we have undertaken an externally facilitated employee survey for the Group employees, recognising that employee engagement is fundamental to the on-going success of the Company. The employee Net Promoter Score, being the way of establishing the level of advocacy an employee has with their employing organisation, had increased to 50. To put the figures into context 20 to 40 is very good/excellent and 40 and above is outstanding. The results were reviewed in detail by the Personnel Committee, the Board and shared with all staff.

Independent Auditor's Report to the members of Western Provident Association Limited

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Western Provident Association Limited (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Position;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Company Statements of Cash Flows;
- the related notes 1 to 23 excluding the capital risk management disclosures in note 20.3 calculated in accordance with the Solvency II regime which are marked as unaudited.

The financial reporting framework that has been applied in their preparation of the Group financial statements is applicable law, and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

2. 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 Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Parent Company.

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

3. Summary of our audit approach

Key audit matters

The key audit matter that we identified in the current year was the valuation of insurance claims liabilities.

Within this report, key audit matters are identified as follows:

- ⓘ Newly identified
- ⬆ Increased level of risk
- ↔ Similar level of risk
- ⬇ Decreased level of risk

Independent Auditor's Report continued

3. Summary of our audit approach continued

Materiality The materiality that we used for the Group financial statements was £1.37m which was determined on the basis of Premium Receivable.

Scoping Our Group audit included the audit of trading subsidiaries in the United Kingdom, covering 99% of Group revenue, 95% of Group profit before tax and 99% of Group net assets.

Significant changes in our approach The Group recognise premiums in accordance with the incidence of risk in the period. In the prior year, as a result of the Covid-19 pandemic, we identified a key audit matter over the methodology used by management to measure the incidence of risk. In the current year, management now consider the incidence of risk to be straight-line across the period of cover. This is consistent with our understanding and, as such, there is limited judgement involved and we no longer consider this to be a key audit matter.

As at 31 December 2020 the Group directly held a listed equity investment of £3.95m which management considered to be in an inactive market. The valuation of this investment was a source of significant estimation uncertainty, given the investment was infrequently traded and is in an inactive market. The Group now values the investment at an immaterial amount and as such we no longer consider this to be a key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the sources of liquidity available to the Group;
- Reviewing the Group's Own Risk and Solvency Assessment ("ORSA") to support our understanding of the key risks faced by the Group, its ability to continue as a going concern and understanding reverse stress tests;
- Evaluating correspondence between the Group and its regulators, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), to identify any items of interest which could potentially indicate either non-compliance with legislation or regulatory action held against the Group; and
- Assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. 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.

5.1 Valuation of insurance claims liabilities

Key audit matter description

As set out in note 1(b) to the financial statements, insurance claims liabilities include a claims outstanding amount of £11.98m at the end of 2021 compared to £10.59m at the end of the previous year.

Insurance reserving is a significant area of management judgement within the Group's financial statements. Due to the significant estimation uncertainty involved in setting the development factor assumption used within the technical reserving model and the commensurate increased effort to audit, we have identified this as a fraud risk and a key audit matter.

COVID-19 has continued to impact claims volumes and the volatility of claims patterns during 2021 (albeit the claims patterns are significantly less volatile than 2020). The easing of lockdown restrictions and increasing provider capacity has resulted in an increase in claims volumes for 2021 when compared to the prior period.

Management uses a chain-ladder model ("CLM") to derive the best estimate technical reserves. Our key area of audit focus was the assumption that 12 months of claims paid data is appropriate to derive an accurate development factor within the technical reserving model. This is the main area of judgment in the CLM calculation and the development factor used by management in the model was on the basis that that the most recent data is more indicative of claims trends.

This key audit matter is also considered by the Audit Committee in their report on page 25.

How the scope of our audit responded to the key audit matter

We have obtained an understanding of the relevant controls around the approach to setting the development factor assumption.

As part of our challenge, we performed sensitivity analysis over the months of data used to determine the significance of the development factor assumption used.

We independently built our own chain ladder model, and compared outputs, to test the accuracy of the output of the development factor assumption used.

We analysed changes to the recent claims trends resulting from the impact of Covid-19 to challenge the appropriateness of the development factor assumption used and that it is reflective of the current environment.

We performed a stand-back approach to assess the reasonableness of the development factor assumption used.

We have assessed the appropriateness of the disclosures around the development factor assumption.

Independent Auditor's Report continued

5.1 Valuation of insurance claims liabilities continued

Key observations

Through our procedures described above we identified that the development factor assumption used within the technical reserving model remained appropriate.

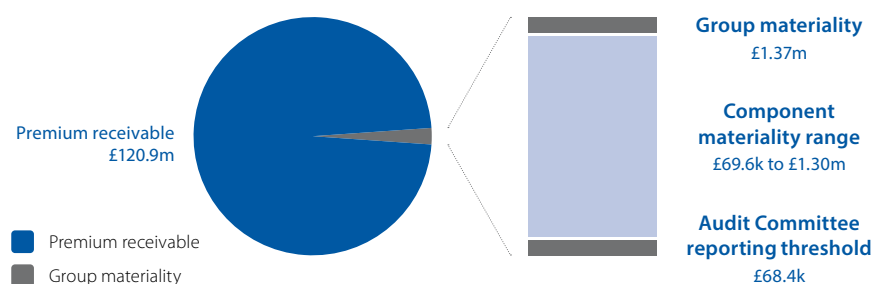
6. Our application of materiality

6.1 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 Company financial statements
Materiality	£1.37m (2020: £1.17m)	£1.30m (2020: £1.11m)
Basis for determining materiality	1.13% of Premium Receivable (2020: 1.13% of Premium Receivable net of Rebates)	1.07% of Premium Receivable (2020: 1.07% of Premium Receivable net of Rebates)
Rationale for the benchmark applied	<p>We have used premium receivable, as it reflects the fact that the Group's main trading entity, the Parent Company, is limited by guarantee and therefore there are no shareholders monitoring profitability or dividend potential.</p> <p>In the prior-year there was a material rebate declared and paid in the year which we included in our benchmark since it represented a revised premium receivable and best reflected the level of business conducted in the year. In the current year, no material rebates were declared.</p>	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	70% (2020: 70%) of Group materiality	70% (2020: 70%) of Parent Company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> • Our risk assessment, including our assessment of the Group's control environment, and that we consider it appropriate to rely on controls over a significant number of business processes; and • Our past experience which has indicated a low number of corrected and uncorrected misstatements in the prior period. 	

6. Our application of materiality continued

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £68k (2020: £58k), 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.

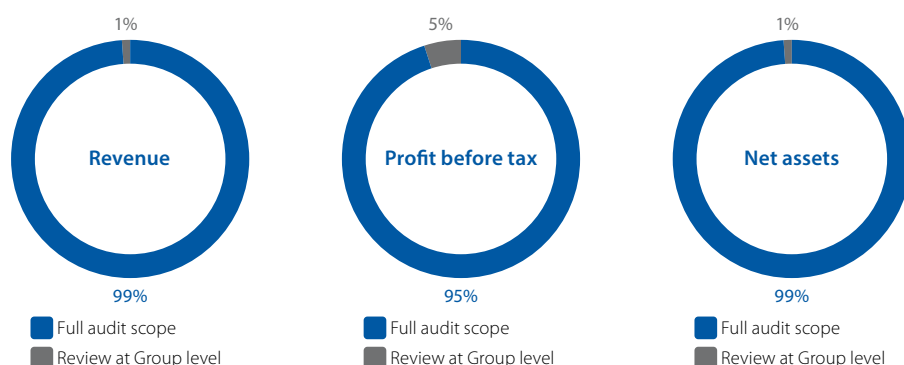
7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risk of material misstatement at the Group level. Audit work to respond to the risks of material misstatement was performed by the Group audit engagement team.

Based on that assessment, we focused our Group audit scope on the United Kingdom trading subsidiaries which are consolidated into the financial statements. These were subject to a full scope audit, executed at levels of materiality applicable to each individual entity in the range £69.6k to £1.30m (2020: £54.0k to £1.11m). Our Group audit included the audit of trading subsidiaries in the United Kingdom, covering 99% of Group revenue (2020: 99%), 95% of Group profit before tax (2020: 96%) and 99% of Group net assets (2020: 99%). The Group Engagement Partner is also the Audit Partner for the Group's UK trading subsidiaries.

At the Group level we also tested the consolidation process and carried out analytical procedure to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.



7.2 The impact of climate change on our audit

In planning our audit, we have considered the impact of climate change on the Group's operations and subsequent impact on its financial statements. The Group sets out its assessment of the potential impact on page 9 of the Annual Report.

We have held discussions with the Group to understand management's:

- process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group;
- long-term strategy to respond to climate change risks as they emerge; and
- management have identified physical and transition risk to the business and assessed that there is no material impact to the financial statements arising from climate change. This has been disclosed in the strategic report on page 9 of the Annual Report.

Our audit work has involved:

- assessing the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment; and
- considering whether information included in the climate related disclosures in the Annual Report were materially consistent with the financial statements and our knowledge obtained in the audit.

Independent Auditor's Report continued

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

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.

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 course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. 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.

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

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;

11.1 Identifying and assessing potential risks related to irregularities continued

- any matters we identified having obtained and reviewed the Group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, financial instruments, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of insurance claims liabilities.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence, PRA and FCA regulations including regulatory solvency requirements.

11.2 Audit response to risks identified

As a result of performing the above, we identified the valuation of insurance claims liabilities as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel 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, reviewing internal audit reports and reviewing correspondence with HMRC, the PRA and the FCA; 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.

Independent Auditor's Report continued

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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 the Parent Company 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.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 3 July 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 9 years, covering the years ending 31 December 2013 to 31 December 2021.

14.2 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).

15. Use of our report

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



Tom Noble *ACA Senior statutory auditor*

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

17 March 2022

Consolidated Statements

1 Consolidated Income Statement for the year ended 31 December 2021	Note	2021 (£'000)	2020 (£'000)
Net insurance premium	II(a)		
– Premium receivable	1(a)	120,935	110,741
– Rebates in relation to Covid-19	1(d)	–	(7,283)
– Change in unearned premium provision		<u>(2,848)</u>	<u>(3,234)</u>
Net insurance premium		118,087	100,224
Administration income	2	2,545	2,391
Administration income rebates	2	<u>–</u>	<u>(139)</u>
Net administration income		2,545	2,252
Net insurance and administration income		120,632	102,476
Investment return	3	3,930	858
Total income		124,562	103,334
Net insurance claims	II(d)		
Claims paid: Gross amount	1(b), 4(a)	(95,608)	(75,081)
Change in the provision for claims	1(b)	<u>(1,395)</u>	<u>422</u>
Net insurance claims		(97,003)	(74,659)
Operating and administrative expenses	4(a)	(29,255)	(25,977)
Items in relation to the pension scheme	17	–	(310)
Investment management expenses		(7)	(33)
Corporate Social Responsibility donations	4(b)	(2)	(263)
Total expenses		(126,267)	(101,242)
(Loss)/profit on ordinary activities before tax	5	(1,705)	2,092
Tax on (loss)/profit on ordinary activities	6	(454)	(587)
(Loss)/profit for the financial year		(2,159)	1,505

2 Consolidated Statement of Comprehensive Income for the year ended 31 December 2021	Note	2021 (£'000)	2020 (£'000)
(Loss)/profit for the financial year		(2,159)	1,505
Post employment actuarial gain/(loss), net of tax	17	2,052	(211)
Revaluation surplus		–	(145)
Currency translation differences, net of tax		(32)	(30)
Total comprehensive (expense)/income for the year		(139)	1,119

3 Consolidated Statement of Financial Position as at 31 December 2021	Note	2021 (£'000)	2020 (£'000)
Assets			
Post employment benefits	17	14,931	13,211
Intangible assets	9	545	629
Property, plant and equipment	10	5,376	5,784
Investment property	11	3,332	3,374
Deferred acquisition costs	1(c)	6,938	4,996
Financial assets	12	189,563	189,632
Loans and other receivables			
– Receivables arising out of direct insurance operations	13	46,810	40,899
– Corporation tax recoverable		668	909
– Other receivables		180	300
– Prepayments and accrued income		1,331	1,633
Cash and cash equivalents		5,329	7,721
Total assets		275,003	269,088
Liabilities and equity			
Reserves		190,769	190,908
Post employment benefits	17	628	763
Insurance contract liabilities			
– Provision for unearned premiums	1(a)	54,115	51,267
– Claims outstanding	1(b)	11,980	10,585
Derivative financial instruments		901	127
Deferred tax	7	2,705	2,181
Trade and other payables			
– Payables arising out of direct insurance operations		5,657	5,391
– Other payables		8,248	7,866
Total equity and liabilities		275,003	269,088

Consolidated Statements continued

4 Consolidated Statement of Changes in Equity for the year ended 31 December 2021	Note	Retained earnings	Currency translation differences	Reserves
		(£'000)	(£'000)	(£'000)
At 1 January 2020		189,874	(85)	189,789
Profit for the year		1,505	–	1,505
Other comprehensive income				
– Post employment actuarial loss, net of tax	17	(211)	–	(211)
– Revaluation deficit		(145)	–	(145)
– Currency translation differences, net of tax		–	(30)	(30)
At 31 December 2020		191,023	(115)	190,908
Loss for the year	11(a)	(2,159)	–	(2,159)
Other comprehensive income				
– Post employment actuarial gain, net of tax	17	2,052	–	2,052
– Currency translation differences, net of tax		–	(32)	(32)
At 31 December 2021		190,916	(147)	190,769

5 Consolidated Statement of Cash Flows for the year ended 31 December 2021	Note	2021 (£'000)	2020 (£'000)
Cash flows from operating activities			
Cash (used by)/generated from operations	14	(3,233)	5,993
Net tax paid		(733)	(305)
Net tax recovered		908	394
Purchase of financial assets		(180,155)	(256,914)
Receipts from financial assets		181,551	252,570
Net cash (used in)/from operating activities		(1,662)	1,738
Cash flows from investing activities			
Purchase of intangible assets		(276)	(579)
Purchases of property, plant and equipment		(277)	(826)
Proceeds from sales of property, plant and equipment		27	45
Net cash used in investing activities		(526)	(1,360)
Cash flows from financing activities			
Payment of lease liabilities		(149)	(144)
Payment of interest on lease liabilities		(23)	(15)
Net cash used in financing activities		(172)	(159)
Net (decrease)/increase in cash and cash equivalents		(2,360)	219
Cash and cash equivalents at beginning of year		7,721	7,532
Currency translation differences		(32)	(30)
Cash and cash equivalents at end of year		5,329	7,721

Parent Company Statements

1 Parent Company Statement of Financial Position as at 31 December 2021	Note	2021 (£'000)	2020 (£'000)
Assets			
Post employment benefits	17	14,931	13,211
Investments in Group undertakings	8	934	934
Intangible assets	9	545	629
Property, plant and equipment	10	5,154	5,472
Deferred acquisition costs	1(c)	6,938	4,996
Financial assets	12	189,563	189,632
Loans and other receivables			
– Receivables arising out of direct insurance operations	13	46,810	40,899
– Amounts owed by Group undertakings		4,925	4,641
– Corporation tax recoverable		447	824
– Other receivables		156	158
– Prepayments and accrued income		1,139	1,580
Cash and cash equivalents		1,719	1,576
Total assets		273,261	264,552
Liabilities			
Reserves		189,988	187,630
Post employment benefits	17	628	763
Insurance contract liabilities			
– Provision for unearned premiums	1(a)	54,115	51,267
– Claims outstanding	1(b)	11,980	10,585
Derivative financial instruments		901	127
Deferred tax	7	2,705	2,181
Trade and other payables			
– Payables arising out of direct insurance operations		5,657	5,391
– Other payables		7,287	6,608
Total equity and liabilities		273,261	264,552

The Company is domiciled, incorporated and registered in England under number 00475557.


The accounts on pages 43 to 47 were approved by the Board of Directors on 17 March 2022 and were signed on its behalf by:



The Rt Hon The Earl of Cromer *Chairman*



Nathan Irwin *Chief Executive*



Donna Eavis *Chief Finance Officer*

Parent Company Statements continued

2 Parent Company Statement of Changes in Equity for the year ended 31 December 2021	Note	Retained earnings (£'000)	Reserves (£'000)
At 1 January 2020		186,935	186,935
Profit for the year		1,051	1,051
Other comprehensive income and expense			
– Post employment actuarial loss, net of tax	17	(211)	(211)
– Revaluation surplus		(145)	(145)
At 31 December 2020		187,630	187,630
Profit for the year		306	306
Other comprehensive income			
– Post employment actuarial gain, net of tax	17	2,052	2,052
At 31 December 2021		189,988	189,988

3 Parent Company Statement of Cash Flows for the year ended 31 December 2021	Note	2021 (£'000)	2020 (£'000)
Cash flows from operating activities			
Cash (used by)/generated from operations	14	(5,392)	4,717
Tax paid		(460)	(160)
Tax recovered		805	226
Purchases of financial assets		(180,155)	(256,914)
Receipts from financial assets		181,551	252,570
Net cash (used in)/from operating activities		(3,651)	439
Cash flows from investing activities			
Purchase of intangible assets		(276)	(579)
Purchases of property, plant and equipment		(262)	(800)
Proceeds from sales of property, plant and equipment		27	45
Dividend received from subsidiaries		4,350	620
Net cash (used in)/from investing activities		3,839	(714)
Cash flows from financing activities			
Payment of lease liabilities		(38)	(40)
Payment of interest on lease liabilities		(7)	(5)
Net cash used in financing activities		(45)	(45)
Net increase/(decrease) in cash and cash equivalents		143	(320)
Cash and cash equivalents at beginning of year		1,576	1,896
Cash and cash equivalents at end of year		1,719	1,576

Accounting Policies

I. Basis of presentation

The Group and Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations Committee (IFRS and IFRIC) as issued by the IASB. As permitted by Section 408 of the Companies Act 2006, no income statement of the Parent Company is presented. The presentation and functional currency of these financial statements is pounds Sterling.

II. Basis of accounting

These consolidated financial statements are prepared on the going concern basis in accordance with the Companies Act 2006 and IFRS as defined by IAS 1. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets and financial liabilities (including derivative instruments) at fair value through income. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in III Significant estimates and judgements.

The consolidated accounts incorporate the accounts of the Company and its subsidiaries, drawn up to 31 December 2021. Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group. The Group has consistently applied its accounting policies to all periods presented in these consolidated financial statements. The principal accounting policies are set out below.

(a) Income

Premiums receivable relate to the premiums on contracts inception during the year, irrespective of whether they relate in part to a later accounting period. Premiums exclude taxes and levies based thereon. All premiums receivable relate to medical insurance and are written in the United Kingdom, Channel Islands or the Isle of Man. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired term of policies in force at the year-end date, calculated on a basis expected to match the expected related claims risk profile. Net insurance premium income represents income earned during the year.

Premium receivables include premiums relating to policies inception during the year where the premium may be due at the balance sheet date or not due until the following year.

Administration income represents amounts receivable under healthcare administration contracts with corporate clients. The Group applies IFRS 15 'Revenue from contracts with customers', whereby the revenue value is determined by the transaction price within the terms of the contract, with each element of the transaction price allocated to a performance obligation of treatment administration which may occur up to six months after the end of the service contract; all of which can be measured through elapsed time.

The administration income contracts are considered to be similar in characteristics and are typically 12 months in duration and are therefore not disaggregated. All groups are UK based and therefore facing the same economic factors.

The performance obligation of administration of treatment is carried out as and when treatment is received.

Administration income is due in advance of the performance obligation, a six month tail for the administration of treatment incurred during the service contract is applied, the tail is calculated as the average maximum period to settle all claims relating to the service contract.

(b) Acquisition costs

Acquisition costs, representing direct and indirect expenses, are deferred and amortised over the period in which the related premiums are earned as per note ii (a).

(c) Unexpired risks

Provision is made for unexpired risks if claims, related expenses and deferred acquisition costs are expected to exceed unearned premium after taking into account future investment income on the unearned premium. No such provision is required at the balance sheet date (2020: £nil).

(d) Claims

Claims incurred represent the total cost of treatment received by policyholders during the financial year. Claims incurred comprise claims and related expenses in respect of treatment paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Insurance payables include notified payments due to policyholders and medical providers which have not been settled at the year-end.

(e) Claims outstanding

Provision is made at the year-end for the ultimate cost of settling all claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported. The estimated cost of claims includes direct and indirect expenses to be incurred in settling claims.

The value of claims paid prior to the balance sheet date and the average claims settlement period during the year, by product, is projected to estimate the total costs of outstanding claims, including claims incurred but not reported. Allowance is made for changes or uncertainties, which may create distortions in the underlying statistics, or changes in the business, which may cause the cost of unsettled claims to increase or reduce.

Accounting Policies continued

Provision for direct and indirect expenses in settling claims is calculated by applying the proportion of claims outstanding to total claims paid during the year to the total claims handling costs incurred.

A primary aim of the Company is to ensure that the provision for outstanding claims is adequate to meet all such costs. The provision is monitored regularly to ensure that no pattern of adverse run-off deviation emerges. However, given the inherent uncertainty in establishing provision for claims, it is likely that the final outcome will prove to be different from the original liability established.

(f) Reinsurance

Reinsurance premiums payable relate to contracts entered into during the year. Reinsurers' share of unearned premiums relate to the unexpired part of the policy in force at the balance sheet date.

The provision for outstanding claims is calculated gross of any anticipated reinsurance recoveries. Amounts recoverable from reinsurers are recognised on a consistent basis as per the gross underwritten risk. Amounts notified to reinsurers are included within reinsurance receivables. Amounts expected to be recoverable from insurers in respect of claims incurred but not reported are included in reinsurance claims outstanding.

If reinsurance contracts are deemed as a non-IFRS 4 insurance contract as a result of insufficient insurance risk and the interdependence between the primary and reinsurance contracts, the insurance and reinsurance contracts are treated as one contract and the net value is reported under administration income on the income statement.

(g) Leases

The Group applies IFRS 16 which requires operating leases to be treated the same as finance leases with the exception of some short-term leases and leases of low value assets. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. This results in previously recognised operating leases being treated as 'right of use assets' and the corresponding, finance lease liabilities being recorded on the consolidated balance sheet.

Right of use assets show within property, plant and equipment and the corresponding lease liabilities within other payables. Right of use assets are initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The lease liabilities are initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liabilities are adjusted for interest and lease payments.

On the statement of cash flows, lease payments are split into a principal and interest portion and presented as financing and operating cash flows respectively.

(h) Financial assets and liabilities

The Group has chosen to apply the optional temporary exemption from IFRS 9 Financial Instruments, as detailed in notes 21 and 22.

Assets in the investment portfolio whose values are reflected in the financial statements at market value are categorised as 'fair value through profit and loss' (FVTPL), therefore changes in their valuation are taken straight to the Income Statement. Those assets acquired with the intention of being held to maturity are separately categorised as such and carried at amortised cost, less allowances for impairment, using the effective interest rate method. Trade and other payables/receivables are recognised at cost, less allowances for impairment, which are expected to equate to their fair value. Gains or losses on fair value through profit and loss assets held at the balance sheet date are recorded in unrealised investment gains or losses; those disposed of during the year are recorded in realised investment gains or losses.

Fair value through profit and loss assets that are traded in an active market are valued at bid price on the last stock exchange trading day of the year. The fair value of other financial assets for which there is no quoted market price is determined by a variety of methods including net asset values provided by fund administrators. Directly held unlisted equities are valued at cost less impairment in line with the requirements of IAS 39 when there is no reliable indicator for fair value, such as a readily available market price, observable equity transactions, current net asset value, peer companies that could be used as proxies, general market trends of the issuer's industry or other economic information. Directly held listed equities that are not actively traded are held at fair value, based on a range of inputs including the weighted average cost of shares issued, recent market transactions and company specific information. Dividends on equity investments and other investment income are accounted for when receivable.

From time to time the Company holds futures and options derivative instruments and forward currency contracts. These securities are held to hedge exposures in equity markets, assets or transactions denominated in foreign currencies. All derivatives are recognised at fair value through profit and loss.

(i) Cash and cash equivalents

Cash and cash equivalents comprise operational cash held in bank accounts and cash in hand.

(j) Investments in Group undertakings

In the Statement of Financial Position for the Parent Company, investments in Group undertakings are stated at cost or at deemed cost, less allowance for impairment, for those held at the date of transition to IFRS. Where a subsidiary undertaking Statement of Financial Position reports a net liability position, provision is made against any inter-company balances due only to the extent that they are deemed irrecoverable.

(k) Foreign currencies

The results and financial position of overseas subsidiaries are translated at the average exchange rate throughout the year and at the closing position date respectively. All resulting exchange rate differences are recognised as a separate component of equity.

(l) Intangible assets

Intangible assets are capitalised and amortised by equal annual instalments over their estimated useful lives, which for software assets is two years, less allowances for impairment. Internally generated software assets comprise all directly attributable costs necessary to enable the asset to be used within the business. Amortisation is shown within operating and administrative expenses on the Income Statement.

(m) Property, plant and equipment

All properties held at the balance sheet date that are not treated as investment property are occupied by the Company and other Group companies. The properties are held as freehold or with a leasehold interest and are revalued annually. Increases in the carrying amount, greater than the value at the transition date, arising on revaluation of land and buildings are credited to the revaluation surplus in reserves. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other changes in carrying value are charged to the Income Statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the Income Statement and depreciation based on the asset's original cost, net of any related deferred income tax, is transferred from the revaluation surplus to retained earnings. It is the Group's practice to maintain these properties to a high standard with the costs of maintenance charged to the Income Statement.

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives. The periods generally applicable are:

Buildings	= 50 years
Furniture and fittings	= 6 years
Motor vehicles	= 4 years
Computer equipment	= 3 years

(n) Investment property

Investment property is valued annually by the Directors and at least triennially by independent specialists. Investment property is held at fair value unless not reliably determinable when under construction, in which case the investment property is measured at cost until the fair value becomes reliably determinable or construction is completed.

(o) Tax

Current tax is payable based on taxable profit for the year and tax rates which are enacted as at the balance sheet date.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

(p) Post employment benefits

The Group has a defined benefit pension scheme (the 'Scheme'), which closed to future accrual on 31 December 2015, and also makes contributions to Group Personal Pensions. The net pension asset or liability recognised in the Statement of Financial Position is the fair value of the Scheme's assets less the present value of the Scheme's liabilities.

The pension cost for the Scheme is analysed between current service cost, past service cost and net return on pension scheme. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the Income Statement on a straight-line basis over the period in which the increases in benefits vest. The interest charge and interest income are recognised on a net basis and shown within the investment return.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the Statement of Comprehensive Income for the period, net of the attributable deferred taxation. Deferred tax arises due to timing differences between accounting treatment and tax treatment. Contributions to Group Personal Pensions are recognised through the Income Statement when due.

Provision is made for the present value of expected costs of providing medical insurance to former employees.

Accounting Policies continued

III. Significant estimates and judgements

(a) Key sources of estimation uncertainty

Claims Reserve. The provision for claims outstanding requires an estimate of the future payments that will be made in respect of treatments incurred prior to the balance sheet date, together with the estimated cost of claims handling expenses. The primary assumption in developing the estimate relates to the pattern of claims paid which are expected to be consistent with recently observed experience and trends. The process of claims reserving involves selecting a reserving methodology and an appropriate look back period on which to base the best estimate of the future payments for incurred claims.

The model used is the chain ladder methodology, which is weighted towards more recent development patterns. There is significant uncertainty and judgement required, and an overriding assumption that the past provides a reasonable basis for future payment patterns and judgement is required in determining the data and patterns that are appropriate. In order to reduce the risk that the best estimate reserves is insufficient to cover the future claims run-off, a statistically determined risk margin is held which aims to provide confidence that the reserves are sufficient.

The development patterns for health insurance claims are generally very predictable and run-off variations are consequently normally low. In periods with a greater degree of uncertainty that impact billing and treatment patterns, such as the Covid-19 pandemic, we highlight the potential for a material positive run-off deviation.

There are a number of variables within the claims reserve calculation as mentioned in (e) of the accounting policies. The calculation of the best estimate is based on data from the chain ladder report. It is possible to adjust the volume of data, based on timescale, used within the chain ladder report. The shortest-term timescale under consideration was four months and the longest was six years, this produced a range (non-linear) of best estimates from £9.9m to £12.8m (2020: £8.6m to £9.6m). In 2021 the one year development factor was deemed appropriate due to treatment being available throughout the year (2020: range of four months).

Revenue recognition. The accounting policy for unearned premium represents the proportion of premiums written in the year that relate to the unexpired term in force at the year-end date, matched to the related claims risk profile. This results in a provision for unearned premium. The accounting policy remains unchanged, but the methodology has been adjusted to take account of the effect of the global pandemic and consequent change in claims risk profile.

Premium is typically earned on a straight-line basis, over the life of the policy, as the claims risk profile follows a broadly stable pattern over time. If there is a significant change to the claims risk profile, such as the Covid-19 pandemic, we use incurred claims data as a proxy for the incidence of risk, relying upon the claims incurred figures derived from the claims reserving methodology described above, along with a prediction for the expected claims pattern where actual claims are as yet unknown. No adjustment was deemed necessary for 2021 (2020: £2.5m).

Property valuation. The valuation of properties is based on a range of assumptions and estimates, with reference to empirical experience of the local property market. The properties have been valued by independent valuers as at 31 December 2021, or valued by the Directors. The fair value of the investment properties held by the Group was determined using methodology based on recent market transactions of similar properties which have been adjusted for the specific characteristics of the properties. The valuation techniques include inputs for the investment properties that are unobservable. Sensitivity analysis for the property valuation is shown in note 10.

Investment valuation. When the Group has held collective investment funds containing unlisted equities, or held unlisted equities directly, the valuations are undertaken by management and where appropriate are based on the information provided by the relevant investment managers. Directly held listed equities that are not actively traded are held at fair value, based on a range of estimates and inputs including the weighted average cost of shares issued, recent market transactions and company specific information. Where appropriate, cost less impairment is used as the basis for the fair value. The Group holds a directly listed equity that is not actively traded. If the net assets of the entity were £10m lower at year end, the valuation would have been £0.1m lower.

Pension valuation. There are a number of assumptions associated with the valuation of the Pension Scheme, these are detailed in note 17.

(b) Critical accounting judgements

The recognition of the Scheme asset under IFRIC 14 requires that the Company has an unconditional right to a refund. In the event that the Scheme is wound up at the point in time when all pensions' payments have reached their natural conclusion the Company would have the right to a refund under the Scheme's Trust deed and rules and thus the Company is mandated to recognise the Scheme asset. The Directors have sought external advice as to whether the trustee approval of the transfer of any surplus to the Company represents a condition that would permit the asset ceiling to be applied, the conclusion reached being that the processes in place do not represent such a condition under IFRIC 14. The Directors have concluded that this judgement is the correct accounting treatment under IFRIC 14.

The reinsurance coverage is limited to two facultative policies, which have been reclassified in these financial statements as a non-IFRS 4 insurance contract as a result of insufficient insurance risk and the interdependence between the primary and reinsurance contracts.

Notes to the Accounts

for the year ended 31 December 2021

1 Disclosures for insurance contracts	2021 (£'000)	2020 (£'000)
(a) Movement in unearned premiums		
Balance at 1 January	51,267	48,033
Premiums written in the year	120,935	110,741
Premium rebated in the year	–	(7,283)
Premiums earned during the year	(118,087)	(100,224)
Balance at 31 December	54,115	51,267
(b) Movement in claims outstanding		
Balance at 1 January	10,585	11,007
Movement in claims incurred in prior years	(3,162)	(325)
Claims incurred in the current year	100,165	74,984
Claims paid during the year	(95,608)	(75,081)
Balance at 31 December	11,980	10,585
(c) Movement in deferred acquisition costs		
Balance at 1 January	4,996	4,421
Movement in the year	1,942	575
Balance at 31 December	6,938	4,996
(d) Premium rebates		
Rebates on policies inception in 2019	–	(3,997)
Rebates on policies inception in 2020	–	(3,286)
Balance at 31 December	–	(7,283)

The rebates were paid to customers in 2020 in recognition of the reduction in availability of private healthcare due to the global pandemic.

2 Administration income

Other income represents non-insurance income for services provided to third parties.

Administration income rebates	2021 (£'000)	2020 (£'000)
Administration income	2,545	2,391
Rebates on policies inception in 2019	–	(63)
Rebates on policies inception in 2020	–	(76)
Net administration income	2,545	2,252

The rebates were paid to customers in 2020 in recognition of the reduction in availability of private healthcare due to the global pandemic.

Notes to the Accounts continued

3 Investment return	2021 (£'000)	2020 (£'000)
Dividend income	1,134	387
Interest received	360	376
Rental income from investment property	213	213
Gains on exchange rate movements	230	453
	1,937	1,429
Net gains/(losses) on realisation of investments	503	(6)
Unrealised investment gains/(losses)	1,327	(691)
Revaluation of investment property	–	(140)
	3,767	592
Net interest on pension scheme	163	266
	3,930	858

4 Net operating expenses	2021 (£'000)	2020 (£'000)
(a) Other operating and administrative expenses		
Acquisition costs	15,008	11,805
Change in deferred acquisition costs	(1,942)	(575)
Administrative expenses	23,067	21,095
FSCS levy	363	347
	36,496	32,672
Gross operating expenses	36,496	32,672
Claims handling expenses, shown within Claims paid	(7,241)	(6,695)
Net operating expenses	29,255	25,977
(b) Corporate Social Responsibility donations		
Donations to the WPA Benevolent Foundation Limited	–	250
Donations to other charitable activities	2	13
Total donations to benevolent and charitable activities	2	263

5 Profit/(loss) on ordinary activities before tax	2021 (£'000)	2020 (£'000)
(Loss)/profit on ordinary activities before tax is stated after:		
Property revaluation	(130)	(224)
Amortisation	(360)	(315)
Depreciation on property, plant and equipment	(543)	(510)
Profit/(loss) on disposal of property, plant and equipment	15	15
Auditor remuneration, inclusive of VAT, for:		
– Audit of the financial statements (Company £205,000 (2020: £193,000))	(246)	(228)
Non-audit fees		
– Audit of regulatory return	–	(48)
– Other assurance work	(40)	(31)
Lease interest	(125)	(125)

Non-audit fees represent 12% of total audit fees (2020: 24%).

6 Tax

2021 (£'000) 2020 (£'000)

(a) Analysis of charge/(credit) in year

UK corporation tax at 19.00% (2020: 19.00%)	–	475
Adjustment for prior periods	(9)	(126)
	(9)	349
Overseas tax	26	34
Total current tax	17	383
Deferred tax (note 7)		
– Origination and reversal of timing differences	(519)	22
– Movement on post employment benefits	(25)	(53)
– Change in tax rate	981	235
Total deferred tax	437	204
Tax charge for the current year	454	587

The principal rate of UK corporation tax was 19% for the financial year 2021.

(b) Factors affecting the tax charge/(credit) for the year

A reconciliation of the tax charge for the year to the charge that would result from applying the standard UK corporation tax rate to the profit before tax is given below:

	2021 (£'000)	2020 (£'000)
(Loss)/profit before tax	(1,705)	2,092
Notional charge at UK corporation tax rate of 19.00% (2020: 19.00%)	(324)	399
Franked investment income not taxable	(215)	(73)
Permanent timing differences	43	151
Items outside the scope of UK tax	(23)	(23)
Tax relating to overseas subsidiaries	26	34
Changes in tax rates	981	235
Adjustment to prior periods' tax	(9)	(126)
Deferred tax: prior year	(25)	(10)
Tax on profit on ordinary activities	454	587

(c) Factors that may affect future tax charges

The principal rate of UK corporation tax was 19% for the financial year 2021 (2020: 19%). The main rate of corporation tax is set to increase to 25% from 1 April 2023. There are no other factors affecting future charges.

	2021 (£'000)			2020 (£'000)		
(d) Analysis of tax credit relating to components of other comprehensive income	Before tax	Tax credit	After tax	Before tax	Tax charge	After tax
Currency translation differences	(32)	–	(32)	(30)	–	(30)
Movement on pension scheme	2,092	(40)	2,052	(236)	25	(211)
Other comprehensive income	2,060	(40)	2,020	(266)	25	(241)

All tax credits relate to deferred tax.

Notes to the Accounts continued

7 Deferred tax	Pension scheme	Trading losses	Post employment medical benefits	Other	Total
Group	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
At 1 January 2020	(2,315)	(1)	111	198	(2,007)
Movement in provision recognised in Income Statement	(220)	1	35	(15)	(199)
Movement in provision recognised in other comprehensive income	25	–	–	–	25
At 31 December 2020	(2,510)	–	146	183	(2,181)
Movement in provision recognised in Income Statement	(1,184)	428	(34)	306	(484)
Movement in provision recognised in other comprehensive income	(40)	–	–	–	(40)
At 31 December 2021	(3,734)	428	112	489	(2,705)
Company					
At 1 January 2020	(2,315)	(1)	111	198	(2,007)
Movement in provision recognised in Income Statement	(220)	1	35	(15)	(199)
Movement in provision recognised in other comprehensive income	25	–	–	–	25
At 31 December 2020	(2,510)	–	146	183	(2,181)
Movement in provision recognised in Income Statement	(1,184)	428	(34)	306	(484)
Movement in provision recognised in other comprehensive income	(40)	–	–	–	(40)
At 31 December 2021	(3,734)	428	112	489	(2,705)

If the freehold property was sold at its current market value there would be a capital loss of £5,360,000 (2020: £5,187,000). There is a deferred tax asset of £1,019,000 (2020: £986,000) related to this capital loss, which has not been recognised, because there is no intention to sell the asset. Deferred tax on the pension scheme surplus or deficit is provided at the rate it is anticipated that it will reverse.

The main rate of corporation tax is set to increase to 25% from 1 April 2023. There are no other factors that may affect future tax charges.

8 Investment in Group undertakings**2021 (£'000)** **2020 (£'000)**Shares at cost 934 934

WPA Ltd is the ultimate Parent Company of the Group. The following companies are directly and wholly owned subsidiaries of the ultimate Parent Company, except for WPA Investments (Development) Limited, which is directly and wholly owned by WPA Investments Limited and therefore indirectly owned by the Parent Company. All are included within the consolidation. Each company is registered in England under the number shown against each one and has capital comprising £1 ordinary shares in issue, except where shown otherwise:

Name of subsidiary undertaking	Nature of business	Notes
WPA Healthcare Practice Plc	Insurance intermediary company (No. 07320330) (capital comprising £5 ordinary shares in issue)	
WPA Investments Limited	Investment company (No. 02591944)	
WPA Protocol Plc	Claims and administration services company (No. 02755175)	
WPA World Class Service (India) Private Ltd*	Data processing company (No. U72400KA2007PTC041954) (a company registered in India with capital comprising INR10 ordinary shares)	
WPA Health Trustee Limited	Trustee company (No. 04562414)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.
WPA Pension Trustees Limited	Trustee company (No. 04710981)	Exempt from filing individual accounts under S448a of the Companies Act 2006.
Delos IT Solutions Limited	Dormant company (No. 10458139)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.
Self-Pay Limited	Dormant company (No. 04174987)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.
Stoploss Insurance Services Limited	Dormant company (No. 03831968)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.
WPA Insurance Services Limited	Dormant company (No. 02593389)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.
WPA Investments (Development) Limited	Dormant company (No. 02593390)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.
WPA Property Services Limited (incorporated 13 December 2017)	Dormant company (No. 11110094)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.
XS Health Limited	Dormant company (No. 03926481)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.
XS Insurance Services Limited	Dormant company (No. 03783854)	Exempt from preparing individual accounts under S394a of the Companies Act 2006.

*31 March accounting year-end in line with fiscal regulations in India.

All subsidiaries held at the IFRS transition date are accounted for in accordance with IFRS 1, using deemed cost. The deemed cost was the value reported in the accounts in accordance with UK GAAP. All other subsidiaries are held at cost.

Notes to the Accounts continued

9 Intangible assets

Group	Total
	(£'000)
Cost or valuation	
At 1 January 2020	2,679
Additions	579
At 31 December 2020	3,258
Additions	276
At 31 December 2021	3,534
Amortisation	
At 1 January 2020	2,314
Provided in the year	315
At 31 December 2020	2,629
Provided in the year	360
At 31 December 2021	2,989
Net book value at 31 December 2020	629
Net book value at 31 December 2021	545
	Total
	(£'000)
Company	
Cost or valuation	
At 1 January 2020	2,679
Additions	579
At 31 December 2020	3,258
Additions	276
At 31 December 2021	3,534
Amortisation	
At 1 January 2020	2,314
Provided in the year	315
At 31 December 2020	2,629
Provided in the year	360
At 31 December 2021	2,989
Net book value at 31 December 2020	629
Net book value at 31 December 2021	545

10 Property, plant and equipment	Freehold property	Furniture and fittings	Computer equipment	Motor vehicles	Right of use assets	Total
Group	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Cost or valuation						
At 1 January 2020	5,315	2,219	2,376	400	676	10,986
Additions	–	205	409	212	131	957
Disposals	–	(40)	(330)	(96)	–	(466)
Revaluation	(224)	–	–	–	–	(224)
At 31 December 2020	5,091	2,384	2,455	516	807	11,253
Additions	–	143	124	–	10	277
Disposals	–	(133)	(57)	(51)	–	(241)
Revaluation	(130)	–	–	–	–	(130)
At 31 December 2021	4,961	2,394	2,522	465	817	11,159
Depreciation						
At 1 January 2020	800	2,028	2,257	215	95	5,395
Provided in the year	76	87	136	87	124	510
Elimination in respect of disposals	–	(36)	(330)	(70)	–	(436)
At 31 December 2020	876	2,079	2,063	232	219	5,469
Provided in the year	45	96	196	85	121	543
Elimination in respect of disposals	–	(134)	(57)	(38)	–	(229)
At 31 December 2021	921	2,041	2,202	279	340	5,783
Net book value at 31 December 2020	4,215	305	392	284	588	5,784
Net book value at 31 December 2021	4,040	353	320	186	477	5,376

Notes to the Accounts continued

Company	Leasehold property	Furniture and fittings	Computer equipment	Motor vehicles	Right of use assets	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Cost or valuation						
At 1 January 2020	5,300	2,035	2,216	359	456	10,366
Additions	–	212	374	214	–	800
Disposals	–	(41)	(331)	(96)	–	(468)
Revaluation	(224)	–	–	–	–	(224)
At 31 December 2020	5,076	2,206	2,259	477	456	10,474
Additions	–	145	117	–	–	262
Disposals	–	(134)	(57)	(52)	–	(243)
Revaluation	(130)	–	–	–	–	(130)
At 31 December 2021	4,946	2,217	2,319	425	456	10,363
Depreciation						
At 1 January 2020	800	1,844	2,125	211	40	5,020
Provided in the year	76	94	130	83	36	419
Elimination in respect of disposals	–	(36)	(331)	(70)	–	(437)
At 31 December 2020	876	1,902	1,924	224	76	5,002
Provided in the year	45	92	177	82	33	429
Elimination in respect of disposals	–	(128)	(56)	(38)	–	(222)
At 31 December 2021	921	1,866	2,045	268	109	5,209
Net book value at 31 December 2020	4,200	304	335	253	380	5,472
Net book value at 31 December 2021	4,025	351	274	157	347	5,154

Leases are held using the revaluation method under IFRS 16. The Parent Company leases its office premises from WPA Investments Limited on a long leasehold agreement. The rental income is on a fixed payment basis and the remaining lease term runs until 2116. The contractual obligation to keep and maintain the property in a good, tenable state of decorative repair remains with the Parent Company. The other right of use assets include: the rent of the business continuity property, the remaining lease term runs until 2029; the rental of property for WPA World Class Service (India) Private Ltd on a three year lease, and equipment for WPA Healthcare Practice Plc, also on a three year lease.

The properties were valued on 31 December 2020 at open market value for existing use by independent valuers Hartnell Taylor Cook, Chartered Surveyors and Valuers, in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual. Valuations include simplifying assumptions. Rivergate House was valued on 31 December 2021 using the same valuer and method. Goodwood House was valued on 31 December 2021 by the Directors of WPA Investments Limited. The fair value of the properties was determined using a methodology based on recent market transactions of similar properties, which have been adjusted for the specific characteristics of the properties held by the Group. If the properties had not been revalued they would have been included at the historical cost of £9,402,000 and cost less depreciation of £3,826,000 (2020: £4,014,000).

The Level 3 fair value measurement used for properties are those that are derived from a valuation technique that include inputs for the asset that are unobservable. A 5% increase in market value would result in an increase of £202,000; a 5% decrease in market value would have the opposite impact.

Depreciation is shown in operating and administrative expenses.

11 Investment property

Investment property is measured at fair value, determined using methodology based on recent market transactions of similar properties, which have been adjusted for the specific characteristics of the property held by the Group. The valuation technique includes inputs for the investment properties that are unobservable.

Rental income from investment property of £0.2m (2020: £0.2m) was received in the year, shown in note 3; maintenance costs from rental property generating rental income were £26K for the year (2020: costs of £75K). The property was valued on 31 December 2021 by the Directors of WPA Investments Limited, as detailed in note 10. Investment property is categorised as level three within the fair value hierarchy.

Group	2021 (£'000)	2020 (£'000)
At 1 January	3,374	3,557
Amortisation of lease incentive	(42)	(43)
Change in fair value	–	(140)
At 31 December	3,332	3,374

12 Financial assets

	Carrying value	
Group and Company	2021 (£'000)	2020 (£'000)
Fair value through profit and loss		
Equity	300	3,950
Collective investment funds – Equities	66,071	55,874
Collective investment funds – Bonds	9,984	–
Collective investment funds – Money market funds	2,400	36,200
Forward currency contracts	191	2,298
Deposits with credit institutions at floating rates	25,981	31,075
Cash collateral	1,080	1,520
Held to maturity		
Government issued securities	57,395	49,901
Debt and other fixed income securities	26,161	8,814
	189,563	189,632

Forward currency contracts were taken out during the year to hedge against part of the exposure to US Dollars, Japanese Yen and Euros in the investment portfolio. The contracts held at the year end had a maturity date of 31 January 2022. Contracts in a loss position, totalling £901,000 in 2021 (2020: £127,000) are shown separately as a liability. The cash collateral represents the initial margin supporting the forward currency contracts and is settled daily in line with the derivatives.

Notes to the Accounts continued

13 Receivables arising from direct insurance operations

As at 31 December 2021 premium due but not received amounted to £617,000 (2020: £566,000). A provision for impairment of £32,000 was made as at 31 December 2021 (2020: £32,000). The premium not yet due relates to policies that are paid by instalments where the relevant due dates are in the future. A provision for lapses of £162,000 (2020: £134,000) is maintained to recognise that some contracts are cancelled after renewal documentation has been issued. All receivables are due within twelve months. A number of policies are sold via intermediaries but all premiums are payable directly to the Company.

Group and Company	2021 (£'000)	2020 (£'000)
Premium due	384	566
Premium not yet due	46,323	40,472
Allowance for bad and doubtful debts	(194)	(166)
Prepayments to corporate client fund accounts	297	27
	46,810	40,899

Movement in provision for impairment and lapses in the above receivables:

Group and Company	2021 (£'000)	2020 (£'000)
At 1 January	166	214
– Amounts (credited)/charged to Income Statement	(134)	86
– Amounts written off	162	(134)
At 31 December	194	166

All provisions relate to the current year. Provisions for bad and doubtful debts are recognised on an incurred loss basis. Specific provision is made for known delinquencies. A collective provision is made for inherent defaults incurred, but not observed, at the balance sheet date on the basis of past experience.

14 Notes to the Statement of Cash Flows

Group	2021 (£'000)	2020 (£'000)
(Loss)/Profit before tax	(1,705)	2,092
Adjustments for:		
– Amortisation	402	358
– Depreciation	543	510
– Profit on disposal of property, plant and equipment	(15)	(15)
– Adjustment for IFRS 16	172	159
– Pension scheme items	–	310
– Pension scheme admin costs	398	234
– Net interest on pension scheme	(163)	(266)
– Decrease on revaluation of property, plant and equipment	130	79
– Decrease on revaluation of investment property	–	140
– Increase in deferred acquisition costs	(1,942)	(575)
– Unrealised investment (gains)/losses	(1,327)	691
Operational cash flows before movements in working capital	(3,507)	3,717
Increase in receivables arising out of direct insurance operations	(5,911)	(1,573)
Decrease in other receivables	228	264
Decrease/(increase) in prepayments and accrued income	302	(576)
Increase in insurance liabilities	4,243	2,812
Increase in derivative financial instruments	774	122
Increase in payables arising out of direct insurance operations	266	554
Increase in other payables	372	673
Cash (used by)/generated from operations	(3,233)	5,993
Company	2021 (£'000)	2020 (£'000)
Profit/(Loss) before tax	793	1,324
Adjustments for:		
– Amortisation	360	315
– Depreciation	429	419
– Profit on disposal of property, plant and equipment	(6)	(14)
– Adjustment for IFRS 16	45	45
– Pension scheme items	–	310
– Pension scheme admin costs	398	234
– Net interest on pension scheme	(163)	(266)
– Decrease on revaluation of property, plant and equipment	130	79
– Increase in deferred acquisition costs	(1,942)	(575)
– Dividend from subsidiaries	(4,350)	(620)
– Unrealised investment (gains)/losses	(1,327)	691
Operational cash flows before movements in working capital	(5,633)	1,942
Increase in receivables arising out of direct insurance operations	(5,911)	(1,573)
(Increase)/decrease in amounts owed by Group undertakings	(284)	938
Decrease/(increase) in other receivables	33	(56)
Decrease/(increase) in prepayments and accrued income	441	(580)
Increase in insurance liabilities	4,243	2,812
Increase in derivative financial instruments	774	122
Increase in payables arising out of direct insurance operations	266	554
Increase in other payables	679	558
Cash (used by)/generated from operations	(5,392)	4,717

Notes to the Accounts continued

15 Employee information

	Group		Company	
	2021	2020	2021	2020
Monthly average number of persons (including Executive Directors) employed on permanent contracts	309	300	264	255
Monthly average FTE (including Executive Directors) employed on permanent contracts	281	274	238	230
	2021 (£'000)	2020 (£'000)	2021 (£'000)	2020 (£'000)
Staff costs: Wages and salaries	13,096	12,142	12,649	11,735
Social security costs	1,311	1,266	1,289	1,224
Other pension costs	958	867	925	838
	15,365	14,275	14,863	13,797

16 Directors' emoluments

	2021 (£'000)	2020 (£'000)
– Salary/fees	2,024	1,838
– Pension related benefits	294	259
– Benefits-in-kind	44	54
– Amounts payable under short-term incentive plans	307	262
– Amounts payable under long-term incentive plans	177	154
Aggregate emoluments	2,846	2,567
Highest paid Director		
– Salary	393	391
– Pension related benefits	79	78
– Benefits-in-kind	2	7
– Amounts payable under short-term incentive plans	110	86
– Amounts payable under long-term incentive plans	57	54
Aggregate emoluments for highest paid Director	641	616

There were fifteen Directors in the year (2020: sixteen), of which six received remuneration under long term incentive plans (2020: six) and six received pension related benefits (2020: six).

17 Post employment benefits

The Company has a defined benefit scheme (the "Scheme") in the UK which is funded and the assets of which are held in separate trustee administered funds. The Scheme was closed to new entrants on 1 April 2004 and closed to future accrual on 31 December 2015.

The asset recognised in the consolidated Statement of Financial Position in respect of the Scheme is the fair value of Scheme assets less the present value of the defined benefit obligation at the end of the financial reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate to the terms of the related pension liability. The latest statutory triennial actuarial valuation of the Scheme as at 31 December 2018 demonstrated that the minimum funding requirement was adequately covered at the time. The liabilities reflected in these accounts as at 31 December 2021 reflect the benefits set out in the ongoing formal actuarial valuation.

To develop the expected long-term rate of return on assets assumption, the Company considers the current level of expected return on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return on asset for each asset class is then weighted by the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

In October 2018, the UK High Court ruled that defined benefits schemes should equalise pension benefits for men and women in relation to Guaranteed Minimum Pensions (GMPs). This is relevant to all UK defined benefit schemes with benefits earned between May 1990 and April 1997, including the Company Scheme. The Scheme Actuary has estimated the impact of equalising GMPs for the Scheme to be an increase of 1% of the Scheme liabilities; this is reflected in the liabilities shown below in both 2020 and 2021.

The major assumptions used by the actuary were:	2021	2020
Rate of increase of pensions in payment	3.24%	2.98%
Discount rate	1.80%	1.25%
Inflation assumption – RPI	3.35%	3.05%
– CPI	2.85%	2.55%
Members taking maximum lump sum	75%	75%
Proportions married	85%	85%
Expected return on Scheme assets	1.80%	1.25%

The weighted average duration of the defined benefit obligations is 20 years (2020: 19 years).

A 0.25% increase in the assumption made for discount rate would, in isolation, have decreased the valuation of Scheme liabilities by £2,348,000; a 0.25% reduction would have increased Scheme liabilities by a like amount. The assumptions for salary and pension increases are directly linked to inflation. A 0.25% increase in the inflation assumption would, in isolation, have increased Scheme liabilities by £1,385,000; a 0.25% decrease would have decreased the valuation of Scheme liabilities by a like amount. If mortality assumptions were to increase by one year this would increase the Scheme liabilities by £1,982,000. If the proportions married were to increase by 10% this would increase the Scheme liabilities by £515,000, a 10% decrease would decrease the Scheme liabilities by the same amount.

Weighted average life expectancy for mortality tables used to determine benefit obligations at:	2021		2020	
	Male	Female	Male	Female
Member age 60 (current life expectancy)	27.8	30.7	27.7	30.5
Member age 45 (life expectancy at age 60)	30.1	32.9	30.0	32.8

Scheme assets:	2021 (£'000)	2020 (£'000)
Gilts	58,686	60,936
Other	234	262
Total market value of assets	58,920	61,198
Actuarial value of liabilities	(43,989)	(47,987)
Scheme asset	14,931	13,211

The Scheme asset is the gross Scheme asset, the related deferred tax liability results in a net Scheme asset of £11,197,000 (2020: £10,701,000).

The gilt assets are considered to be fair value level 1.

Analysis of Scheme costs included within net operating expenses (note 4)	2021 (£'000)	2020 (£'000)
Past service cost (equalising GMPs)	–	310
Pension scheme past service charges	–	310

Notes to the Accounts continued

Analysis of net interest cost on the Scheme included within investment return (note 3)	2021 (£'000)	2020 (£'000)
Expected return on Scheme assets	757	1,087
Interest on Scheme liabilities	(594)	(821)
Net interest on the Scheme	163	266

Statement of Changes in Equity	2021 (£'000)	2020 (£'000)
Return on plan assets (excluding interest income)	(1,716)	6,337
Changes in assumptions	3,808	(6,573)
Actuarial gain/(loss) recognised	2,092	(236)
Related deferred tax (charge)/credit	(40)	25
Changes in equity	2,052	(211)

Movement in value of the Scheme during the year		
Change in benefit obligation	2021 (£'000)	2020 (£'000)
Present value of benefit obligation at beginning of year	47,987	41,352
Past service cost (equalising GMPs)	–	310
Interest cost	594	821
Actuarial changes		
– Effect of changes in financial assumptions	(3,489)	6,761
– Effect of experience adjustments	(182)	(295)
Benefits paid	(921)	(962)
Present value of benefit obligations at end of year	43,989	47,987

Change in Scheme assets	2021 (£'000)	2020 (£'000)
Fair value of Scheme assets at beginning of year	61,198	54,970
Interest income	757	1,087
Return on Scheme assets (excluding interest income)	(1,716)	6,337
Benefits paid and transfers out	(921)	(962)
Scheme administration cost	(398)	(234)
Fair value of Scheme assets at end of year	58,920	61,198

History of assets and liabilities	2021 (£'000)	2020 (£'000)
Total market value of assets	58,920	61,198
Present value of Scheme liabilities	(43,989)	(47,987)
Scheme surplus	14,931	13,211

History of experience gains and losses	2021	2020
Return on Scheme assets	(2.9%)	10.4%
Experience gains/(losses) on Scheme liabilities	0.0%	0.0%

As the Scheme closed to future accrual on 31 December 2015, the Company made no normal contributions during the year (2020: no normal contributions). During the year the Company made no special contributions to the Scheme (2020: no special contributions to the Scheme).

Since the IFRS transition date the cumulative gain recognised through the Statement of Comprehensive Income is £7,236,000 (2020: cumulative gain of £9,192,000).

For employees meeting the eligibility conditions, the Company operates a Group Personal Pension (GPP). The GPP provides the auto-enrolment solution for the Company and provides improved levels of contribution above the auto-enrolment requirements for staff with greater than five years of service. During the year contributions of £1,369,000 (2020: £1,249,000) were made to defined contribution schemes.

Group and Company	Pension Scheme surplus (£'000)	Post employment medical provision (£'000)
At 1 January 2020	13,618	(657)
Movement in the year	(407)	(106)
At 31 December 2020	13,211	(763)
Movement in the year	1,720	135
At 31 December 2021	14,931	(628)

Free or discounted medical insurance cover has been provided for retired employees. The provision is the estimated future cost of claims in excess of anticipated premiums. The costs of the cover are taken directly to the Income Statement and the provision required is updated annually. Given the inherent uncertainty in establishing the provision for claims, it is likely that the final outcome will prove to be different to the original liability established. The key assumptions underpinning the post employment medical benefit provision are the net increase of future claims in excess of premiums of 1.6% (2020: 1.6%) and the discount rate of 1.80% (2020: 1.25%). Mortality assumptions are taken from the S3PA tables with CMI 2015 projections and 1.5% pa long-term rate (2020: S3PA tables CMI 2015 projections and 1.5% pa long-term rate).

18 Commitments and contingent liabilities

	2021 (£'000)		2020 (£'000)	
	Group	Company	Group	Company
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
– Within one year	125	45	125	45
– Between one and five years	131	180	211	180
– After five years	134	161	178	206
	390	386	514	431

The Group has leased a building to provide business continuity capabilities. Lease payments are on a fixed payment basis and no arrangements have been entered into for contingent payments. The remaining lease term runs until December 2029.

The Parent Company has guaranteed the liabilities of its dormant subsidiaries (including trustee companies) listed at Note 8, permitting them to be exempt from preparing and filing their accounts at Companies House. The Parent Company has confirmed that it will meet the current liabilities of WPA Investments Limited, for at least the next eighteen months, in the event that the company is unable to meet them itself.

Notes to the Accounts continued

19 Related parties

a) Transactions with subsidiaries

The transactions between the Company and its subsidiaries are presented below. All transactions and balances with Group entities are eliminated on consolidation. All balances with trading subsidiaries are unsecured and there are no terms and conditions relating to them. Debts of dormant subsidiaries are guaranteed by the Parent Company.

Transactions in the year:	2021 (£'000)	2020 (£'000)
Administration charge by WPA Limited	(11,345)	(9,677)
Administration charge to WPA Limited	11,679	10,019
	334	342
Balances outstanding:		
Gross receivable by WPA Limited	5,011	4,922
Gross payable by WPA Limited	(86)	(281)
	4,925	4,641

b) Key management compensation

Key management personnel include all Parent Company Executive and Non-Executive Directors.

	2021 (£'000)	2020 (£'000)
– Salary/fees	2,051	1,838
– Pension related benefits	294	259
– Benefits-in-kind	44	54
– Amounts payable under short-term incentive plans	307	262
– Amounts payable under long-term incentive plans	177	154
Aggregate emoluments	2,873	2,567

Key management personnel purchased WPA insurance policies on an arm's length basis with premium payments of £616 in the year (2020: £1,508).

c) Other related parties

During the year there were no donations made by the Company to the WPA Benevolent Foundation Limited (the Foundation), a company limited by guarantee and affiliated to the Group (2020: £250,000). The objective of the Foundation is the promotion of good health in young people through supporting project and working with communities and special-interest groups in the South West. The Company leases, on an arm's length basis, a property owned by the Foundation and paid lease costs in the year of £63,000 (2020: £60,000). Lord Cromer is a Director of the WPA Benevolent Foundation Limited.

The Company holds investments with a value of £11,767,000 (2020: £11,560,000) in the Pedder Street Asia Absolute Return Fund, a Hong Kong based Fund of which Lord Cromer is the chairman of the board of directors; the Company holds 11% (2020: 10%) of the fund.

The Company holds investments with a value of £1,599,000 (2020: £1,543,000) in The Far East Value Fund, an Asian collective investment fund of which Lord Cromer is one of the directors. The Company holds 8% (2020: 8%) of the fund.

20 Risk management

20.1 Financial risk management

The activities of the Group expose it to a variety of financial risks - market risk (including exchange rate, interest rate and price risks), credit risk and liquidity risk. The overall risk management programme of the Group focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the financial performance of the Group.

The Board has a formally approved statement of its Risk Appetite. The Investment Committee monitors the management of investment assets to ensure that they meet the aims and objectives set out in the statement of Risk Appetite; the investment managers report regularly to the Investment Committee to enable it to fulfil this role.

a) Market risk

The Group's primary market risk exposure is through the portfolio of collective investment funds, whose underlying assets are equities. From a solvency perspective the impact of market risk is eliminated through holding low risk investments, typically UK Government stocks and Treasury Bills, which meet solvency and current liabilities requirements. Equity risk is managed through the Investment Committee's careful selection of investment managers who have a sound track record and expertise in their chosen sector or geography. The portfolio is well diversified to protect against adverse market movements in any one segment.

The geographical equity exposure of the portfolio in collective investment equity funds at 31 December 2021 and 2020 were:

Geographical equity exposure	Number of funds	2021 (£'000)	Number of funds	2020 (£'000)
UK	5	30,780	3	24,520
Europe	1	2,988	1	2,283
US	3	4,738	4	7,574
Asia	5	18,382	3	15,364
Global	5	9,183	3	6,133
	19	66,071	14	55,874

The principal financial assets held at 31 December 2021 and 2020, analysed by their fair value hierarchy levels were:

		2021 (£'000)	2020 (£'000)
Level 1	Deposits with credit institutions at floating rates	25,981	31,075
	Collective investment funds – Equities	50,730	40,510
	Collective investment funds – Bond funds	9,984	–
	Collective investment funds – Money market funds	2,400	36,200
	Cash collateral	1,080	1,520
Level 2	Forward currency contracts	191	2,298
	Collective investment funds – Equities	15,341	15,364
Level 3	Equity	300	3,950
At amortised cost			
Level 1	Government issued securities	57,395	49,901
	Debt and other fixed income securities	26,161	8,814
		189,563	189,632

Government issued securities, deposits with credit institutions at fixed rates, debt and other fixed income securities, loans and receivables and trade receivables are recognised on the balance sheet at amortised cost. The fair value of trade receivables and deposits with credit institutions at fixed rates are considered to be equivalent to the amortised cost. Whilst all the investments in the portfolio are susceptible to movements in interest rates, to a greater or lesser extent, the most directly affected are the fixed income and Government issued securities. The Group has 23 (2020: 9) direct corporate bond holdings and holdings in UK Government stocks and UK Treasury Bills. These instruments are intended to be held to maturity and thus these are held at amortised cost totalling £83.6m within these financial statements. The estimated fair value of these instruments is £83m.

Notes to the Accounts continued

	Available for sale Unquoted equities	
	2021 (£'000)	2020 (£'000)
Reconciliation of Level 3 fair value measurements of financial assets:		
Balance at 1 January	3,950	7,650
Total losses recognised	(3,650)	(3,700)
Balance at 31 December	300	3,950

Fair value hierarchy

Level 1: Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes actively traded listed equity shares, money market funds, exchange-traded derivatives and UK Government stocks.

Level 2: Values are provided by the investment manager using techniques based significantly on observed market data, including net asset values. This level also includes Over The Counter derivatives.

Level 3: Valued using techniques incorporating information other than observable market data.

The level 3 equity represents a directly held equity that was listed in 2021. The equity is not actively traded on its exchange. The equity is held at fair value, based on a range of estimates and inputs including the weighted average cost of shares issued, recent market transactions and company specific information.

The underlying investments in equities, the majority of which are listed on recognised exchanges, are directly exposed to price risk, although this risk is mitigated to some extent by holding a diversified portfolio of funds.

The investment portfolio has exposure to foreign currencies through collective investment schemes invested in equities not denominated in Sterling and through holding US Dollars. Forward currency contracts were taken out during the year to hedge against the majority of this exposure. For some Asian currencies, US Dollar forward contracts were used as a proxy to hedge the exposure. The Group holds small current account bank balances in Indian Rupees, which are primarily held for working capital purposes. The Group has a regular need to purchase Rupees to meet the operating expenses of WPA World Class Service Limited.

The largest single equity market to which the Company has exposure is the UK equity market. Using the FTSE 100 as a proxy for the UK equity portfolio, if this index were to fall by 200 points, the impact on asset values would be a reduction of £840,000 (2020: £880,000). If all equity values were to fall by 5% this would reduce asset values by £3,320,000 (2020: £2,990,000).

(b) Credit risk

Credit risk is defined to be the potential for loss that can occur as a result of impairment in the creditworthiness of an issuer or counterparty or a default by an issuer or counterparty on its contractual obligations. Credit risk also extends to encompass the exposure that the Group has to third parties, in particular to customers and to providers of reinsurance in the event that they are unable to meet their obligations. All debts due to the Group are reviewed each month and full provision is made for those debts which are considered to be bad and partial provision for those considered to be doubtful, in accordance with IAS 39.

Credit risk limits are intended to constrain the exposure to individual counterparties and issuers, types of counterparties and issuers, countries and types of financing collateral.

The Group assesses the creditworthiness of existing and potential customers, and institutional counterparties and determines Group-wide credit risk limits within an agreed risk framework. In addition, the Group reviews and monitors portfolio and other credit risk concentrations. Through the investment managers, the Group also performs ongoing monitoring of credit quality and investment-limit compliance to manage and mitigate credit risk. The Investment Committee sets limits on the exposure to an individual counterparty or issuer taking due account of the probability of it failing to fulfil its contractual obligations.

The Group manages its exposure to policyholder debtors through regular credit control procedures coupled with a stringent policy of holding claims payments until any overdue amounts are received from policyholders.

The largest single counterparty exposure is the UK Government stock of £57.4m. The maximum duration of UK Government stock held at amortised cost is seven years from the balance sheet date.

(c) Liquidity risk

Liquidity risk relates to the management of the cash flow of the Group. Since the Group has no ability to raise equity funding externally, on account of its legal structure, liquidity risks relate principally to the Group being unable to liquidate an asset in a timely manner at a reasonable price. Such risks are therefore primarily concerned with the construction of the investment portfolio. The Group has no plans to raise capital through the issuance of loan notes nor does it rely on premium income to meet the current outgoings of the business, including claims.

Due to the construction of the investment portfolio and its highly liquid nature, liquidity risk is not regarded as a significant issue. Controls are in place to ensure that the situation does not deteriorate to a position where it could become such. As at the year end the Group held sufficient liquid assets to cover current liabilities.

The following table analyses the financial liabilities of the Group, the majority of which will be settled within twelve months, with £1,869,000 of other payables settled later than twelve months (2020: £1,641,000). The amounts disclosed in the table are the contractual undiscounted cash flows, with estimates for goods and services received at the balance sheet date but not invoiced.

	2021 (£'000)	2020 (£'000)
Payables arising from direct insurance operations	5,657	5,391
Provision for outstanding claims	11,980	10,585
Other payables	8,248	7,866
	25,885	23,842

20.2 Insurance risk management

Medical insurance is short-tail business and thus the ultimate claims outcome of each year can be predicted with reasonable accuracy at the end of each accounting period. Adverse claims frequency or severity could result in short-term claims costs exceeding premium levels. Management regularly review underwriting ratios and take action as necessary to ensure that results within a financial year are aligned to the medium-term strategy of break-even across the insurance portfolio. The rebates issued in April and June 2020 are examples of this being actively managed. Low claims in 2020, as a result of the pandemic, gave rise to greater claims frequency risk in 2021 as customers sought delayed elective treatment. Policies' terms and premium rates are reviewed at least annually or more frequently where performance deviates from expectations. Contracts with major hospital networks are negotiated annually and when our customers require complex medical treatment we work with the healthcare providers to ensure that our policyholders obtain value for money. The financial strength of the business does not necessitate an extensive reinsurance arrangement. The reinsurance coverage during the year was limited to two facultative policies, which is shown in these financial statements as a non-IFRS 4 insurance contract, as a result of the interdependence between the primary and reinsurance contracts.

20.3 Capital risk management

The Company is a not-for-profit organisation, which does not have to satisfy the appetite of shareholders for returns. The capital of the business comprises its entire accumulated reserves, as disclosed on the face of the Statement of Financial Position.

As a consequence of its legal structure, the Group has no recourse to external capital and therefore internally generated capital is of paramount importance. There is no significant dissipation of capital through major infrastructure projects: the Group owns the freehold to its office building and expenditure on capital projects is closely controlled. There are ongoing requirements to replace and upgrade IT equipment and other assets, but the costs of these additions are met out of regular cash flow. The Group has no plans for any significant capital expenditure in the foreseeable future.

The Board receive regular management information updates on the capital position when measured against the Solvency II Standard Formula and have approved the holistic risk management approach as captured in the ORSA. As at 31 December 2021 the Group's solvency coverage against the standard formula assessment was 369% (unaudited) (2020: 447%). Further information can be found in the Solvency & Financial Condition Report on the website – wpa.org.uk.

Notes to the Accounts continued

21 Future accounting disclosures

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and (in some cases) had not yet been issued by the IASB:

- IFRS 9** Financial instruments – classification and measurement.
- IFRS 17** Insurance contracts.
- IAS 1** Presentation of financial statements, amendment regarding classification of liabilities as current or non-current.
- IAS 16** Property, plant and equipment, amendment regarding proceeds before intended use.
- IAS 37** Provision, contingent liabilities and contingent assets, amendment regarding onerous contracts.

IFRS 9 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. As reported in last year's report & accounts, the Group applies the temporary exemption from IFRS 9 Financial instruments, as defined in the amendment "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – IFRS 4 amendments" issued by the IASB in September 2016. This amendment allows an entity to defer the implementation of IFRS 9 if its activities are predominantly connected with insurance. As a result, the Group will continue to apply IAS 39, Financial Instruments: Recognition and Measurement in its financial statements until the reporting period beginning on 1 January 2022.

The Group concluded that it qualified for the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. The Group's percentage of its gross liabilities connected with insurance relative to its total liabilities at 31 December 2015 was 99%. Liabilities connected with insurance comprise the liabilities arising from contracts within the scope of IFRS 4 for a total amount of £55.3m, liabilities from non-derivative investment contracts measured as at FVPL for a total amount of £0.3m and liabilities that arise as the insurer fulfils obligations arising from contracts within the scope of IFRS 4 and non-derivative investment contract liabilities measured at FVPL (e.g., liabilities for other payables directly associated with those obligations) for a total amount of 4.2m.

Since the balance sheet date there has been no significant change in activities of the Group that requires reassessment of the use of the temporary exemption from IFRS 9.

The Group's percentage of its gross liabilities from contracts within the scope of IFRS 4 relative to its total liabilities at 31 December 2015 was 99% which is in excess of the 90% threshold required by IFRS 4. Refer to note 22 for further detail.

The Group is continuing to assess the impact of IFRS 17 and the amendment to IAS 1, which are effective for annual reporting periods beginning on or after 1 January 2023. In the summer of 2021, a training session hosted by external experts was held for the Group's senior management, to increase awareness of IFRS 17. The training covered accounting and actuarial elements, technological solutions and project planning. Throughout 2021, senior management have engaged with a number of external companies offering consultancy and software relating to IFRS 17. These engagements have included IFRS 17 seminars, software demonstrations and discussions with consultants. As a consequence of the work carried out in 2021, senior management have a better understanding of the requirements of the accounting standard and we believe we have a clear pathway to selecting the required tools, suited to our business model, in order for the Group to ensure that we are equipped to fulfil the requirements.

The Group is currently assessing the impact of the amendments to IAS 16 and IAS 37, which become effective for annual periods beginning on or after 1 January 2022, these are not expected to significantly impact the Group.

The other standards in issue but not yet effective are not expected to significantly impact the Group.

22 IFRS 9 deferral

The Group applies the temporary exemption from IFRS 9 Financial instruments, as defined in the amendment "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – IFRS 4 amendments" issued by the IASB in September 2016. This amendment allows an entity to defer the implementation of IFRS 9 if its activities are predominantly connected with insurance. As a result, the Group will continue to apply IAS 39, Financial Instruments: Recognition and Measurement in its financial statements until the reporting period beginning on 1 January 2022.

The Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015.

The Group concluded that it qualified for the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. The Group's percentage of its gross liabilities connected with insurance relative to its total liabilities at 31 December 2015 was 99%. Liabilities connected with insurance comprise the liabilities arising from contracts within the scope of IFRS 4 for a total amount of £55.3m, liabilities from non-derivative investment contracts measured as at FVTPL (Fair Value through Profit and Loss) (for a total amount of £0.3m and liabilities that arise as the insurer fulfils obligations arising from contracts within the scope of IFRS 4 and non-derivative investment contract liabilities measured at FVTPL (e.g., liabilities for other payables directly associated with those obligations) for a total amount of 4.2m.

During 2021 and 2020, there has been no significant change in activities of the Company that requires reassessment of the use of the temporary exemption from IFRS 9.

The Company's percentage of its gross liabilities from contracts within the scope of IFRS 4 relative to its total liabilities at 31 December 2015 was 99% which is in excess of the 90% threshold required by IFRS 4.

The table below presents an analysis of the fair value of the classes of financial assets as at the end of the reporting period. The financial asset classes are divided into three categories:

- (i) **SPPI (Solely Payments of Principal Interest):** assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount, but are not meeting the definition of held for trading in IFRS 9, or are not managed on a fair value basis; and,
- (ii) **Fair Value Option:** assets that follow the fair value option at initial recognition and carried at FVTPL (Fair Value through Profit and Loss); and,
- (iii) **Other (at FVTPL):** all financial assets other than those specified in SPPI and Fair Value Option, financial assets:
 - (a) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
 - (b) that meet the definition of held for trading in IFRS 9; or,
 - (c) that are managed and whose performance are evaluated on a fair value basis.

Notes to the Accounts continued

	Solely Payments of Principal and Interest	Fair Value Option	Other (at FVTPL)	Total
	(£'000)	(£'000)	(£'000)	(£'000)
Fair values as at 31 December 2020				
Debt securities	58,715	–	–	58,715
Equity securities	–	–	3,950	3,950
Loans and receivables	–	–	42,108	42,108
Collective investment schemes – Equities	–	–	55,874	55,874
Collective investment schemes – Bonds	–	–	–	–
Collective investment schemes – Money market funds	–	–	36,200	36,200
Derivatives	–	–	2,298	2,298
Cash collateral	–	–	1,520	1,520
Cash and cash equivalents	–	–	38,796	38,796
Total financial assets	58,715	–	180,746	239,461
Fair values as at 31 December 2021				
Debt securities	83,556	–	–	83,556
Equity securities	–	–	300	300
Loans and receivables	–	–	47,658	47,658
Collective investment schemes – Equities	–	–	66,071	66,071
Collective investment schemes – Bonds	–	–	9,984	9,984
Collective investment schemes – Money market funds	–	–	2,400	2,400
Derivatives	–	–	191	191
Cash collateral	–	–	1,080	1,080
Cash and cash equivalents	–	–	31,310	31,310
Total financial assets	83,556	–	158,994	242,550
Change in fair value				
Debt securities	24,841	–	–	24,841
Equity securities	–	–	(3,650)	(3,650)
Loans and receivables	–	–	5,550	5,550
Collective investment schemes – Equities	–	–	10,197	10,197
Collective investment schemes – Bonds	–	–	9,984	9,984
Collective investment schemes – Money market funds	–	–	(33,800)	(33,800)
Derivatives	–	–	(2,107)	(2,107)
Cash collateral	–	–	(440)	(440)
Cash and cash equivalents	–	–	(7,486)	(7,486)
Total financial assets	24,841	–	(21,752)	3,089

For financial assets whose cash flows represent SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides information on credit risk exposure (rated by Standard & Poors). The financial assets are categorised by asset class with a carrying amount measured in accordance with IAS39 measurement requirements (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).

	Debt securities	Equity securities	Loans and receivables	Collective investment schemes – Equities	Collective investment schemes – Bonds	Collective investment schemes – Money market funds	Derivatives	Cash collateral	Cash and short-term deposits	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
As at 31 December 2020										
AAA	–	–	–	–	–	36,200	–	–	–	36,200
AA	49,901	–	–	–	–	–	–	–	1,012	50,913
A	1,830	–	–	–	–	–	–	–	22,338	24,168
BBB	6,984	–	–	–	–	–	–	–	13,111	20,095
Without external rating	–	3,950	42,108	55,874	–	–	2,298	1,520	2,335	108,085
	58,715	3,950	42,108	55,874	–	36,200	2,298	1,520	38,796	239,461
As at 31 December 2021										
AAA	–	–	–	–	–	2,400	–	–	–	2,400
AA	57,395	–	–	–	–	–	–	–	1,012	58,407
A	9,456	–	–	–	–	–	–	–	18,195	27,651
BBB	16,705	–	–	–	–	–	–	–	6,066	22,771
Without external rating	–	300	47,658	66,071	9,984	–	191	1,080	6,037	131,321
	83,556	300	47,658	66,071	9,984	2,400	191	1,080	31,310	242,550

For assets that do not have low credit risk as determined by the Group and of which cash flows represent SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides the credit risk exposure from the financial assets held by the Group. The financial assets are categorised by asset class with a carrying amount and fair value measured in accordance with IAS 39 measurement requirements.

As at 31 December 2021	Carrying amount (£'000)	Fair Value (£'000)
Debt securities	83,556	83,024

23 Events after the reporting period

The conflict between Russia and Ukraine has caused volatility in investment markets globally, notably equities and commodities. Whilst our investment portfolio is not immune to the volatility, the portfolio remains defensively deployed, with the majority in UK Government stock and cash instruments.

Our standards are high

On an annual basis we are independently audited by the BSI certification body for four internationally recognised standards. These reflect our service excellence provided to our customers, whether big global employers, medium sized businesses or the many thousands of UK individuals and families.

Quality Management : ISO 9001:2015

The internationally recognised Standard for Quality Management systems placing emphasis on achieving customer satisfaction and continual improvement.

Business Continuity Management : ISO 22301:2012

A management system to restore our ability to supply critical services to an agreed level following a disruption to service.

Environmental Management : ISO 14001:2015

The internationally recognised Standard for Environmental Management systems – one of the highest benchmarks in environmental management and best practice.

Information Security Management : ISO 27001:2013

The benchmark for protecting valuable and sensitive customer information.



Western Provident Association Limited

Rivergate House | Blackbrook Park | Taunton | Somerset | TA1 2PE
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