Parent Report & Accounts for:

WPA INSURANCE SERVICES LIMITED

(Company Number: 02593389)

(Page - 54)

Western Provident Association
Report and Accounts 2019

WPA

For the year ended 31 December 2019

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 2019.

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

Chairman's Statement

I am pleased to report that throughout 2019 WPA has remained focused on our purpose of enabling our customers to access the best possible healthcare. In doing so, we have treated our customers as we would wish to be treated ourselves.

These principles are at the heart of our business and emanate throughout the culture of the organisation. The evidence supporting this is strong. We pay 97.9% of claims received, our customers rate our service as 4.7 out of 5 and in the last 10 years the Financial Ombudsman service has only adjudicated against our decision on eight occasions – a remarkable achievement across three million customer years.

This culture has been set by the tone from the top and it is with tremendous gratitude that on behalf of WPA and its customers we thank Julian Stainton for 32 years of outstanding service as Chief Executive. The transition of the Chief Executive position to Nathan Irwin was completed during the summer of 2019. The Board are confident that Nathan's approach will ensure that the ethical principles of the Company remain of paramount importance.

As a not-for-profit business we plan to break even on a rolling three year basis. A surplus on insurance operations in 2018 has been offset by a deficit in 2019, such that over the last three years we have been successful in delivering a 99.5% combined ratio.

We continue to encourage our customers, whether private individuals, small or large corporates to take an active interest in their healthcare costs by paying a proportion themselves. This approach has enabled premiums to remain sustainable whilst our customers are safe in the knowledge that WPA will be there to fulfil the promise we make as their insurer.

The commitment we make to our customers is underpinned by a strong balance sheet and capital base. No standalone insurer in the UK has a stronger Solvency Coverage Ratio – the European standard measure of capital strength.

The outlook for the UK economy is uncertain and, in part, dependent on the nature of the future trading relationship with the European Union. Virtually all of our customers are based in the UK, some may find their personal or business circumstances are adversely affected by the departure from the EU, but equally others will thrive. We are well prepared, our customers recognise the value of having WPA to rely upon when they need us, and as people we will always need healthcare.

We have been doing this since 1901 and we are confident that by remaining committed to our principles we will continue to serve our customers with excellence.

The Rt Hon The Earl of Cromer *Chairman*
19 March 2020

Chief Executive's Review

It is a privilege to be appointed Chief Executive of the Western Provident Association and I am committed to maintaining the culture, ethics and ethos of the business.

The business is in good health. 2019 has seen a modest, organic increase in customer numbers which is reflected in both premium income, up 0.5%, and like-for-like income up 3.1% – our measure of the scale of the business. Our customer retention rates are excellent, reflecting the service we provide. This is best evidenced by the feedback provided by our customers which shows that on average our customers rate our service as 4.7 out of 5.

As an insurer our service is most important when a customer needs to call upon our services to make a claim.

We have an excellent team of people who support our customers with empathy and compassion. The quality and availability of this service really does differentiate WPA from other financial services institutions. We are building on this proposition and in 2020 plan to provide dedicated personal support for those customers with complex medical conditions.

Personal service will always be required in healthcare, but for some customers a digital interaction is the preferred approach. The launch of the WPA Health app in the final quarter of 2019 is market leading, enabling a contemporary customer experience that over the course of 2020 will be expanded to enable all customers to start their medical treatment, as well as make administrative changes, access their policy documentation and see how they are using the benefits available under their policy.

We firmly believe our customers should have the freedom to choose the time, place and provider of their choosing, not directed by their insurer.

We strike the balance between enabling customers to access the treatment they desire with the protection of only recognising those therapies, drugs or procedures that have been through the appropriate clinical governance. Perhaps the best example of this is cancer care where our policies complement and supplement the oncology services of the NHS, but remain within the practices and procedures that have been licensed for use in the UK. This approach sustains the affordability of our healthcare policies, whilst recognising that medical professionals, not insurers, are best placed to advise on suitable medical treatments.

The financial results of the business for 2019 show what we consider to be a normal year, reporting a claims ratio of 80.2%. As expected this increased compared to the 2018 claims ratio of 74.1% which was attributed to a particularly light claims experience. We authorised 97.9% of claims (2018: 98.4%), confident that the claims that we declined were done so fairly and in the interest of our customers as a whole. Bottom line we report a post-tax loss of £2.1m (2018: post-tax profit of £7.5m) – adverse to expectation due to write down in inactively traded investments of £3.8m and £2.1m in compensation for loss of office and associated taxes in connection with the retirement from position of CEO.

Chief Executive's Review continued

Looking forward we anticipate claims to remain at current levels and, in line with our not-for-profit objectives, plan to break-even in 2020. The absence of shareholder demands enables the business to continue to invest for the long-term. Next year we will deliver material improvements in the customer, healthcare partner and intermediary experience when initiating or renewing a policy with WPA. This investment completes the rebuild of the policyholder systems technology and provides the latest infrastructure to deliver a truly excellent customer experience as the Western Provident Association approaches its 120th anniversary.

Nathan Irwin *Chief Executive*
19 March 2020

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 Directors here present their annual report together with the audited consolidated financial statements for the year ended 31 December 2019.

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 modest 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, are held in UK Government stocks. Assets in excess of the ORSA requirements 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 2019

The business had a successful year with solid financial results which saw population and premium income growth. A key performance indicator of like-for-like premium income, assuming all healthcare administration and corporate deductible contracts were fully insured, increased by 3.1% over last year. The claims costs reverted to pre-2018 levels as anticipated, indicating that 2018 was an unusually low claims year. This increase in premium income and claims resulted in an annual claims ratio for 2019 of 80.2% against a prior year of 74.1%. During 2019 we authorised 97.9% (2018: 98.4%) of all properly presented claims. Net operating expenses have seen an increase in the year of £1.7m which can be attributed to one-off costs relating to the compensation for loss of office payment. Overall the insurance and healthcare administration business reported an underlying loss before tax of £3.5m (2018: profit of £4.5m).

The investment portfolio returned £1.2m or 0.4% (2018: £5.7m or 2.9%) in the year. The good return made by the majority of the investments was hampered by two revaluations. The first on an inactively traded investment costing the portfolio £2.3m and the second a downward revaluation of property of £1.5m. We maintain our commitment to hold UK Government stock to back our ORSA. The portfolio remains very defensively positioned, with 80% in cash, UK Government stock and Sterling denominated corporate bonds. The remaining 20% is in return-seeking assets – for the longer-term this is strategic equity holdings, including property; for the shorter-term it is trading in Exchange Traded Funds (ETFs). During the year we entered into US Dollar and Japanese Yen denominated forward currency contracts to hedge our foreign currency exposure in light of the uncertain economic position.

Regulatory capital coverage remains strong at 5.6 times the Solvency Capital Requirement (2018: 6.2 times).

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. KPIs are for management purposes and therefore do not necessarily follow statutory accounting rules. One such example is gross revenues on a like-for-like basis. The gross revenue from fully insured customers is premium income; the premium income from customers with a high corporate deductible policy does not reflect the volume of work processed in the same way as a customer with no deductible; and the gross revenue from a client of WPA Protocol Plc (Protocol) is an administration fee. It makes no sense to combine these by straight addition (the statutory basis) since that gives no realistic measure of how the overall business is growing. However, by adding all payments made on behalf of Corporate Deductible and Protocol customers together with premiums and Protocol's administration income we arrive at a meaningful like-for-like gross revenue figure across the Group.

Review of 2019 continued

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

Gross revenues (like-for-like)

£172.5m (2018: £167.3m)

Premiums, plus claims for Corporate Deductible and Protocol clients plus Protocol administration income.

Combined operating ratio

103.1% (2018: 96.8%)

Ratio of claims, commissions and expenses (excluding Corporate Social Responsibility donations) to premiums.

Solvency II SCR coverage (unaudited)

5.6 (2018: 6.2)

Available regulatory capital divided by standard formula assessment.

Net investment return

0.4% (2018: 2.9%)

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

Claims authorised

97.9% (2018: 98.4%)

Percentage of properly presented claims authorised.

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

The economic outlook for the UK will continue to be a talking point as further deadlines loom in regard to our relationship with our European neighbours. Whilst we are not immune from adverse macroeconomic conditions we are not overly concerned with the outcome of the negotiations surrounding the future relationship as we are a specialist health insurer operating exclusively in the UK and are not reliant on EU suppliers or customers. All of our policies offer customers options to reduce their premiums, thus enabling them to continue with their healthcare in the event that they need to reconfigure their cost of cover. Similarly, we have options available for employers or individuals who want to expand their level of cover. With record low unemployment and changes to the UK's labour market, private health insurance will remain a valuable employment benefit and effective staff retention tool.

Board of Directors

The members of the Board who served during the year are shown on pages 13 and 14.

Strategic Report continued

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 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. 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.

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.

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 procedures undertaken 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. For example, 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. 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 and current liabilities' requirements. Equity risk is managed through the Investment Committee's careful selection of funds which have a sound track record or management expertise in the chosen sector or geography. 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.

Principal risks and uncertainties continued

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 prevails 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.

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.

Going concern

The Group has demonstrable liquid resources of £149.4m (2018: £146.9m) in excess of liability requirements and as such the Board is satisfied that the Group remains a going concern.

Strategic Report continued

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 always consider long-term consequences in order to safeguard the Association's future.

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 members, employees, customers, the community and any other relevant stakeholder.

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, 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. Nevertheless, our customers are at the forefront of all that we do and a key factor in any decision taken by the Board. 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; complaints and compliments 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 10 years. We recognise that the strength of the Company is in the people and by fostering closer teamwork we can continually improve the business. To bolster engagement with our employees, during the final quarter of 2019, a staff survey was undertaken by an external third-party with a presentation back to all staff as to follow up actions. 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 – our analysis shows we pay 91% of invoices within 30 days. The approval of any material business relationship is a matter reserved for the Board's approval.

WPA and Section 172 of the Companies Act 2006 continued

Key Decisions

The key decisions taken and overseen by the Board during 2019 were the transition of Chief Executive and the subsequent appointments of Chief Risk Officer and Chief Finance Officer.

In appointing Nathan Irwin as Chief Executive, the Board considered its duty to promote the long-term success of the Association and safeguard its future.

Other key decisions 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 sub-Committees pay due regard to stakeholder interests and promoting the long-term success of the Association.

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

Nicola Royle *Company Secretary*
19 March 2020

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 management liability insurance on behalf of 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.

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. There is full involvement and communication of the Company's performance through monthly company meetings, monthly quality statistics and the partnership-for-excellence reward scheme.

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 32% of the workforce have chosen to utilise part-time working and overall 41% of the workforce have taken advantage of flexible hours arrangements.

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 2019 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 EU Audit Regulation for transitional arrangements, is required to rotate its audit firm. Deloitte LLP is the current auditor and a resolution to reappoint Deloitte LLP as auditor may 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 adopted by the European Union. 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 are disclosed therein.

Signed on behalf of the Board.

Nathan Irwin *Chief Executive*
19 March 2020

Board of Directors and Principal Officers

Non-Executive Chairman

The Rt Hon The Earl of Cromer
Aged 73

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 69

Henry was appointed to the Board in October 2006 and Vice-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

Jasper Gill *FRCS MBA*
Aged 46

Jasper was appointed to the Board in February 2019 as a Non-Executive Director. 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.

John Chester *MS FRCS FRCP Chief Medical Officer*
Aged 64

John was appointed to the Board in 2010 when he took up the post of Chief Medical Officer. He 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.

John Pugh *FCA Senior Non-Executive*
Aged 69

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.

Martin Kramer
Aged 79

Martin is a media lawyer, appointed to the Board by WPA in August 2009. Previously a partner in a leading city law firm and involved in a number of ground-breaking legal decisions for both individuals and media organisations, he brings insight, skill and experience to the Board.

Robert Lee *MA FIA*
Aged 62

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.

Chief Executive

Nathan Irwin *FCA*
Aged 40

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

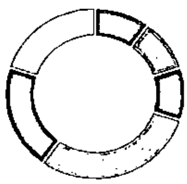
Rod Bramston *BSc (Hons) MBA* *Retail and Commercial*
Aged 57

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 50

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.

Board skills



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

Board changes

Outgoing

Julian Stainton

On 31 August 2019, Julian stepped down from the Board after 32 years of service as Chief Executive Officer.

Incoming

Jasper Gill

Appointed as a Non-Executive Director with effect from 22 February 2019. Jasper is a practising Consultant Surgeon and also sits on the Medical Advisory and Clinical Governance Committee.

Brian Goodman

To be appointed as an Executive Director – upon regulatory approval.

Board of Directors and Principal Officers continued

Executive Officers

Donna Eavis ***FCMA*** *Chief Actuary and Chief Finance Officer*
Aged 50

Donna has been with WPA for 19 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.

Brian Goodman ***BSc (Hons)*** *Executive Director, Corporate*
Aged 57

In January 2020, subject to regulatory approval, the Board appointed Brian following 30 years working with WPA. Brian is the Chief Executive of the Group's specialist healthcare administrator WPA Protocol Plc. Brian trained as a quantity surveyor prior to joining WPA.

Mark Southern *Commercial Director*
Aged 42

Mark joined WPA in 2008 and has held a number of roles across the business. He is currently the Commercial Director with responsibility for the distribution across WPA. Prior to joining WPA, Mark was a Royal Marines Commando Officer.

James Searle *Chief Operating Officer*
Aged 43

Jim has been at WPA for three 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 32

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

Kimberley Bell ***LLB (Hons)***
Neville Kavarana ***MBA***
Russell Moore
Lisa O'Brien
Denize Spierenburg ***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 20 onwards.*

System of Governance

Audit Committee
O

Risk Committee
O

Investment Committee
O

Remuneration Committee
B

Executive Leadership Team
M

Nomination and Governance Committee
O

Medical Advisory and Clinical Governance Committee
O

Security Advisory Committee
B

Personnel Committee
B

Subsidiary Companies reporting directly to the Board:
WPA Healthcare Practice Plc
WPA Protocol Plc
WPA Investments Limited
WPA World Class Services (India) Private Limited

Board of Directors

Members

A = Annual meetings
M = Monthly meetings
O = Quarterly meetings
B = Biannual meetings

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, a majority of which are Non-Executive, engage with all stakeholders and are cognisant of their duty to promote the long-term success of the Company.

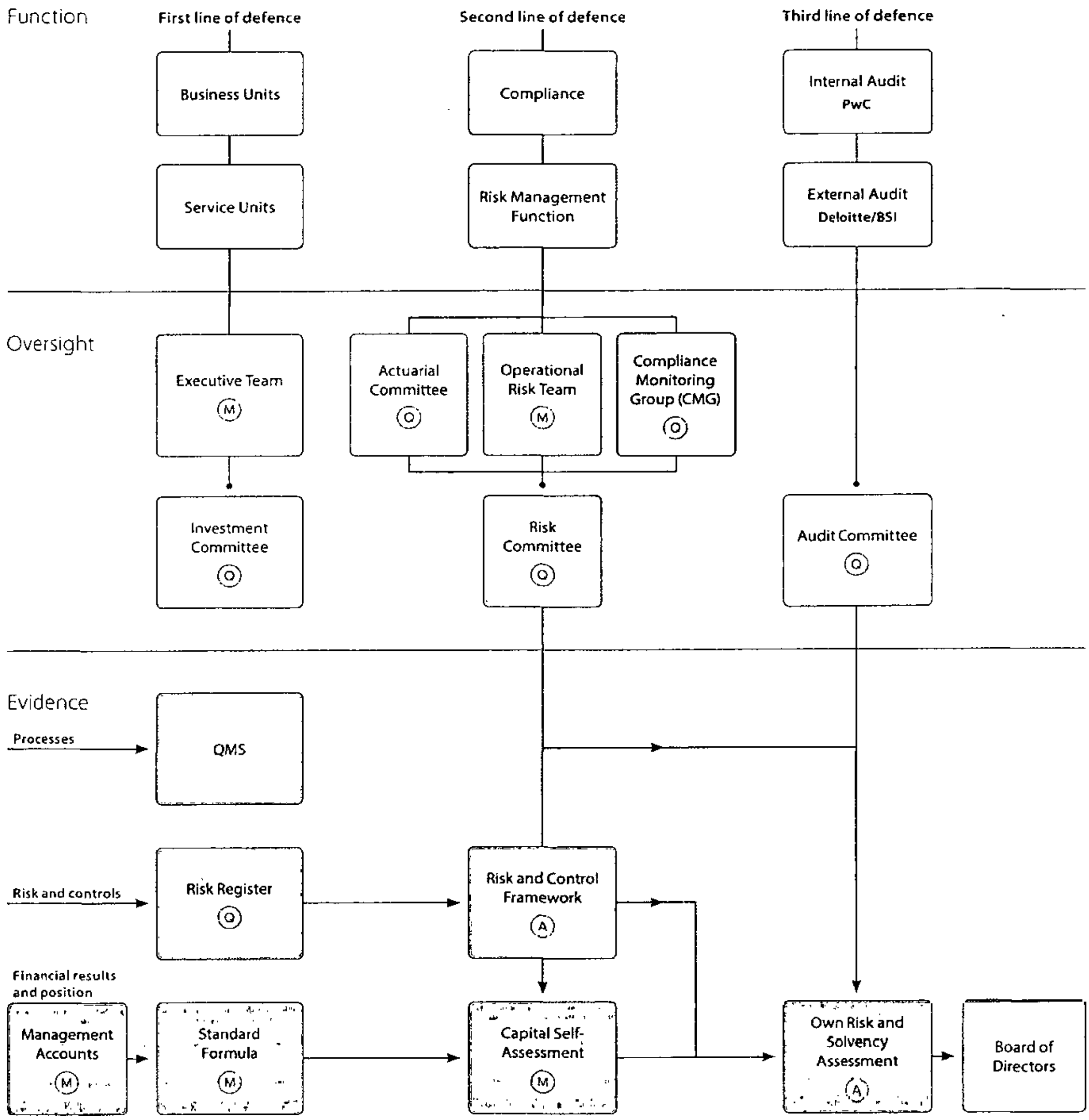
Members

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.

Whistleblowing

WPA encourages openness and will support whistleblowers who raise concerns, even if they turn out to be mistaken. The Association has an internal Whistleblowing Officer and Deputy. The Senior Independent Director (SID), John Pugh, is the Whistleblowing Champion. The policy and procedure is a matter formally reserved for the Board and is reviewed annually.

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, determines the strategic direction of the Group and 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.

The Independent Non-Executive Directors are at least equal in number to the Executive and, with their particularly wide experience, their role is to bring independent judgement to the Board. 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 working alongside staff in all parts of the business.

The Board has a formal Code of Conduct and Schedule of Matters specifically reserved to it, which can only be amended by the Board itself and which is reviewed annually. The structure and composition of the Board is kept under review and the Board, with input from the Nomination and Governance Committee, considers the identification and nomination of new Directors and the continuation of existing Directors in office. There is a formal procedure for Directors 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, which in turn report to the Board.

Governance Framework

The Board reviews the Group's strategic plans and objectives annually and approves budgets and plans in light of these. The Board is involved in and 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 Advisory Committees are set out on page 17 and have written statements of principles, which clearly define authorities and responsibilities. All Committees meet regularly and their minutes are placed on the Agenda of the Board. Committee remits and membership are reviewed annually; some of the Committees comprise members who are not directors, where they bring a particular expertise.

Corporate Governance continued

Audit Committee

John Pugh *FCA Chairman*
Henry Kenyon *FCA*
Robert Lee *MA FIA*

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.

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 although it is not subject to external audit.

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.

During 2019, in addition to the work outlined above the Audit Committee reviewed and considered the valuation of illiquid investments held by the Association. The Committee are satisfied that the valuation method adopted by management is appropriate.

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 2019, 12 internal audits were undertaken by PwC with no pervasive issues identified.

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 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.

During 2019, the only non-audit service undertaken by the external auditors was the assurance obtained on the Group's International Standards for Assurance Engagements report. In accordance with European and the Financial Reporting Council requirements for audit rotation, the external audit partner, Simon Cleveland 'rotated' after five years. Andrew Holland was appointed as the Association's external audit partner.

WPA intends to tender the appointment of the external auditor at least every 10 years and the Audit Committee, on behalf of the Board, will take charge of this tender process in due course. In any event, during 2019, following the commencement of the external audit, Deloitte LLP sought to increase their audit fees by around 50%. Accordingly, during 2020, the Committee intends to review the appointment of the external auditor to establish whether they continue to represent appropriate value for money. In conducting this review, ensuring audit quality is our primary concern, we have had no concerns with the quality of the audit performed by Deloitte LLP. It will then determine whether it recommends 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.

The Committee last undertook an effectiveness review in 2017. During the first quarter of 2020, the Committee will be observed as part of the wider Board Effectiveness Review facilitated by an independent external third party.

In summary, for 2019 the Committee recommended and the Board was satisfied that both the internal and external auditors were effective.

Corporate Governance continued

Risk Committee

Robert Lee *MA FIA Chairman*
Henry Kenyon *FCA*
John Pugh *FCA*

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 with the Chief Risk Officer and separately with the Actuarial Function holder.

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 and management. The Risk Committee has oversight of senior and executive management and receives reports from the Compliance Monitoring Group, the Operational Risk Team 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 Own Risk Solvency Assessment (ORSA) 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.

Work of the Risk Committee

Owing to the changes which took place during 2019, the Risk Committee held additional meetings, by way of enhanced oversight, and reported to the Board regularly during the transition to the new Chief Executive and resultant recruitment of a replacement Chief Risk Officer.

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.

Cyber security remains a key risk faced by all businesses and WPA is no exception. The Group has a dedicated Security Advisory Committee which reports to the Risk Committee on a quarterly basis. The Board is appraised of cyber security risks and continues to monitor and adapt to the threat presented by this ever-changing area.

During 2019, there were no cyber security breaches and no reports were made to the Information Commissioner's Office.

The PRA aim to ensure that operational resilience is a pillar of prudential supervision of equal importance to financial resilience. Operational resilience has been another focus area. 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.

For 2019, 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, credit and liquidity), pensions, Group 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 moving forward 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

Nathan Irwin *FCA Chairman*
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.

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

John Chester *FRCP FRCS Chairman and Chief Medical Officer*
Keith Bates *FRCS*
Stephen Falk *FRCR*
Jasper Gill *FRCS MBA*
Martin Grover *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*
Henry Kenyon ***FCA***
John Pugh ***FCA***
Nathan Irwin ***FCA***

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

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

WPA has no share capital or shareholders. Overarching governance is provided by members (a minimum number of 40) who have individual liability limited to £100 each. In accordance with the Articles of Association the appointment of members is a matter for the Board on the recommendation of the Nomination and Governance Committee and subject to final ratification by the members at a General Meeting.

The Committee is comprised of the Chairman of the Board, Non-Executive Directors considered to be independent and the Chief Executive. In addition to appointments, it is responsible for maintaining an orderly succession plan. The Committee has established a Board Diversity and Inclusion Policy and takes this into account when considering appointments and dealing with succession. The Board Diversity and Inclusion Policy 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 during 2019
Integral key appointments were made during 2019, in accordance with the long-term succession plan. Mr Jasper Gill was appointed as an independent Non-Executive Director during the first quarter. Mr Gill is a seasoned medical professional, a member of the WPA Medical Advisory and Clinical Governance Committee and provides invaluable knowledge, skill and experience.

Mr Nathan Irwin was appointed as the Chief Executive during the third quarter. Mr Irwin was previously the Chief Financial and Chief Risk Officer. He was identified as a potential successor in 2017 and developed into a deputy Chief Executive role over the last two years. Accordingly, the Board had experience and evidence on which to base their decision.

With Mr Irwin's appointment to Chief Executive, WPA recruited externally for a Chief Risk Officer. The position was advertised in the national press and during the fourth quarter Mr Peter Venables was selected from a pool of 20 candidates. Mr Venables joined as Chief Risk Officer during the first quarter of 2020.

Board Evaluation
In the final quarter of 2019, the Nomination and Governance Committee commenced an external Board effectiveness review. The Committee considered that the nature and extent of an external evaluators contact with the Board was of paramount importance and therefore discounted any provider that solely undertook questionnaire style evaluations. Six candidates produced proposals which were considered by the Committee in detail before an evaluator was selected. The evaluation is to conclude in the first quarter of 2020 and the feedback will be considered by the Board during 2020.

Nomination and Governance Committee continued

Gender Balance

As at 31 December 2019 there were 254 employees: 31% male and 68% female. Of the top decile of the business, comprising Executive Directors, including the Executive Team and Senior Managers, 45% are female and 55% 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.

Remuneration Committee

Henry Kenyon ***FCA*** *Chairman* (appointed 22 October 2019)
The Rt Hon The Earl of Cromer
John Pugh ***FCA***

The Remuneration Committee 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.

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.

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.

Corporate Governance continued

Remuneration Committee continued

- 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 and quality metrics. Typical payments over the last few years have been around 20% of salary.
- Long-term Incentive Plan – a plan making payments of up to 15% of salary over a four year period to recognise the long-term success of the Company including metrics around culture, ethos, reputation and financial stability.

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 is 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 2019 a 2% increase was implemented across the workforce to reflect increases in the 'cost of living'.

Employees of WPA may qualify for a Performance 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 upon the recommendation of the Committee and is then subject to ratification by the members of WPA. 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; and
- Have other income streams sufficient to maintain their commitments and lifestyle.

Remuneration Committee continued

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 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.

Executive Directors and Senior Management qualify for the company car scheme or cash alternative. 40% of company cars are electric or hybrid.

Controls

Clawback provisions for Executive Directors and Senior Management were discussed during 2019 and introduced via new service contracts for 2020. The clawback provisions provide for three years of recovery.

Personnel Committee

Jasper Gill ***FRCS MBA*** *Chairman* (appointed 27 February 2020)
Tracy Sheen ***MA FCIPD*** *Chairman* (until 27 February 2020)
Neil Davidson ***ACMA CMIIA***
Andrew Haworth ***LLB (Hons)***
Nathan Irwin ***FCA***
Martin Kramer (appointed 27 February 2020)
Lady Merrison
Ellis Turley ***Cert CII***

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.

During 2019 the Vision and Values committee was enhanced into the Employee Voice. The Employee Voice consists of elected staff members from across the business and service units who meet quarterly. The minutes are circulated to all staff members and received by the Personnel Committee. During the last quarter of 2019, a staff survey was commissioned by an independent third-party, with a presentation back to all staff as to follow up actions. During 2020, the Personnel Committee will have oversight of the staff survey and its resultant action points.

Security Advisory Committee

Henry Kenyon ***FCA*** *Chairman*
James Searle
Jim Clover

The Group has established a Security Advisory Committee, utilising external technical specialists to advise the Group on cyber security best practice.

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Western Provident Association (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 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows;
- the Parent Company statement of financial position;
- the Parent Company statement of changes in equity;
- the Parent Company statement of cash flows; and
- the related notes 1 to 22 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 is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities 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 the non-audit services prohibited by the FRC's Ethical Standard were not provided 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.

Independent Auditor's Report continued

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Insurance reserving
- Valuation of investments in an inactive market

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

(!) Newly identified

(⌃) Increased level of risk

(<>) Similar level of risk

(⌄) Decreased level of risk

Materiality

The materiality that we used for the Group financial statements was £1,280k, which was determined on the basis of gross written premium.

Scoping

Our group audit included the audit of trading subsidiary entities in the United Kingdom, covering 99% of group revenue.

Significant changes in our approach

There have been no significant changes to our audit approach.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

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.

Insurance reserving

Key audit matter description

Insurance reserving is a significant area of management estimate within the Group's financial statements. Due to the high level of estimation involved, we have identified this key audit matter as a fraud risk. Our key areas of focus were:

1. Appropriateness of the reserving model: There is a risk that changes to WPA's book of business result in the model no longer calculating reserves completely and accurately.
2. Mechanical accuracy of data input and calculation for large corporate reserving: The calculation is mechanical and complex due to the use of multiple reports from the policy and claims administration system and the bespoke nature of the contracts.

Claims reserves include an incurred but not reported amount of £11.1m at the end of 2019 compared to £9.5m at the end of the previous year.

The key audit matter is referred to in section III of the financial statements on significant judgements and estimates and the insurance risk management note 20.2.

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

Appropriateness of the reserving model

We have obtained an understanding of the key controls relating to this key audit matter.

We tested the reserving model by comparing each element of the reserve to those included in the previous year. Working with our IT specialists, we tested the completeness and accuracy of relevant data input and the mathematical accuracy of the outputs.

Given the short-tailed nature of the group's insurance risk, we analysed the run-off of the the 2019 reserve post year-end to assess if the run-off curve is in line with our expectation. We analysed potential changes to the group's book, risk exposure and recent claims trends to determine if a change in the reserving model was required.

Mechanical accuracy of data input and calculation for large corporate reserving

We have obtained an understanding of the key controls relating to this key audit matter.

For a sample of large corporate customers included in the reserving calculation we agreed the inputs back to supporting contractual information and supporting historical claims paid data.

We have performed recalculations over the model to derive the required reserve to assess mechanical accuracy.

Where appropriate, we tested the completeness and accuracy of the key underlying data used in the reserving calculation.

Key observations

Overall we are satisfied that the reserving model, which has been consistently applied with the prior year, is appropriate for the size and complexity of the Group's insurance risk.

Based on the work performed, we concluded that the mechanical accuracy of the data input and calculation for large corporate reserving is appropriate.

Independent Auditor's Report continued

Valuation of investments in an inactive market

Key audit matter description
As at 31 December 2019 the Group held a listed equity investment of £7.65m (2018: £10m). Management have considered the holding to be in an inactive market and therefore the valuation is subject to significant management judgement.

The valuation of this investment is a source of significant estimation uncertainty given the investment is a start-in an inactive market.

Due to the high level of judgement and estimates involved, we have identified this key audit matter as a fraud risk.

The key audit matter is referred to by the Board in their Strategic Report, section III of the financial statements on significant judgements and estimates and the financial risk management note 20.1a.

How the scope of our audit responded to the key audit matter
We have obtained an understanding of the key controls relating to this key audit matter. We have reviewed management's judgement paper on the proposed valuation approach for this investment.

Working with our financial instruments specialists we have challenged the assessment from management that the investment is listed in an inactive market through reviewing frequency and quantum of recent trades on the exchange.

Working with our valuation specialists we challenged the valuation methodology adopted by management through an assessment of suitability of the options available in accordance with IFRS 13.

We have agreed all historic and post year end share issuances and prices to Companies House. We have assessed market data and impairment indicators which may challenge management's judgements on the valuation of the investment.

We have reviewed the disclosures made in section III of the financial statements on significant judgements and estimates, and the financial risk management note 20.1a to assess whether the judgements and estimates made by management on this investment are appropriately disclosed.

Key observations
Overall we found management's approach to value the investment at fair value appropriate.

We have found the disclosures in section III of the financial statements and note 20.1a to be in line with the judgements and estimates made by management.

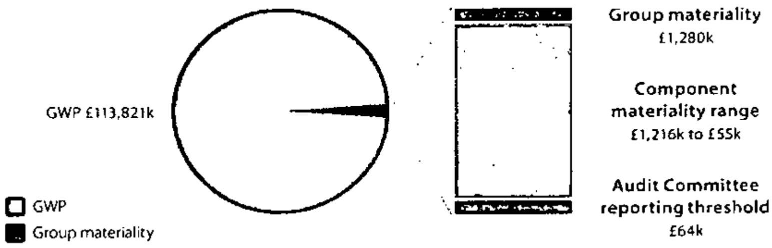
Our application of materiality

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	£1,280k (2018: £1,227k)	£1,216k (2018: £1,166k)
Basis for determining materiality	1.13% of Gross Written Premium	Parent Company materiality equates to 1.07% of Gross Written Premium, which is capped at 95% of group materiality.
Rationale for the benchmark applied	We have used gross written premium as the benchmark for our materiality to reflect 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. Gross written premium best reflects the level of business conducted in the year.	



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 performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including our assessment of the company's control environment and that we consider it appropriate to rely on controls over a significant number of business processes.
- Our past experience, which indicates a low number of corrected and uncorrected misstatements in the prior period.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £64k (2018: £61k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

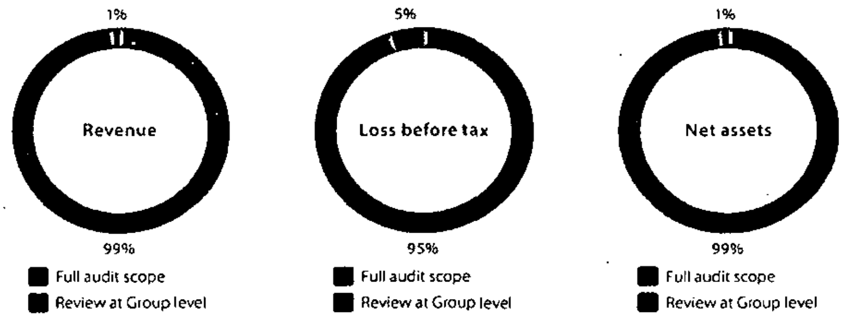
Independent Auditor's Report continued

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risk of material misstatement at the Group level.

Based on that assessment, we focused our group audit scope on the UK trading subsidiaries which are consolidated in the financial statements. These were subject to a full scope statutory audit, executed at levels of materiality applicable to each individual entity in the range £55k to £1,216k. Audit work to respond to the risks of material misstatement was performed by the Group audit engagement team.

The Group Engagement Partner is also the Audit Partner for the Group's UK trading subsidiaries. The Group has a subsidiary in India which has a non-coterminous year-end. As this subsidiary is not significant to the Group audit we have performed analytical procedures.



Other information

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

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

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

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

We have nothing to report in respect of these matters.

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.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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.

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

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

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, 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;

Independent Auditor's Report continued

Extent to which the audit was considered capable of detecting irregularities, including fraud 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;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions and IT 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 following areas:

1. Insurance reserving; and
2. Valuation of investments in an inactive market

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 2006, pension legislation, 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 compliance with regulatory and solvency requirements that are fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified insurance reserving and valuation of investments in an inactive market as key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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;

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

- 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 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, 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.

Report on other legal and regulatory requirements

Report on other legal and regulatory requirements

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.

Matters on which we are required to report by exception

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.

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.

Independent Auditor's Report continued

Other matters

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 7, covering the years ending 31 December 2013 to 31 December 2019.

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

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

Use of our report

This report is made solely to the 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.

Andrew Holland *FCA Senior statutory auditor*
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
19 March 2020

Consolidated Statements

1 Consolidated Income Statement for the year ended 31 December 2019	Note	2019 (£'000)		2018 (£'000)	
Net insurance premium	II(a)				
– Premium receivable	1(a)	113,760		111,591	
– Change in unearned premium provision		(1,210)		(256)	
Premium arising from insurance contracts issued	1(a)		112,550		111,335
– Reinsurance premium payable	1(a)	(4,600)		(3,107)	
– Change in unearned premium provision, reinsurers' share	1(a)	807		(11)	
Premium ceded to reinsurers on insurance contracts issued	1(a)		(3,793)		(3,118)
Net insurance premium			108,757		108,217
Administration income	2		2,181		2,099
Net insurance and administration income			**110,938**		**110,316**
Investment return	3		1,232		5,693
Total income			**112,170**		**116,009**
Net insurance claims	II(d)				
Claims paid: Gross amount	1(b)	(89,761)		(82,759)	
Less reinsurers' share	1(b)	4,030		2,809	
Net claims paid	1(b)		(85,731)		(79,950)
Change in the net provision for claims	1(b)		(1,465)		(186)
Net insurance claims			(87,196)		(80,136)
Operating and administrative expenses	4(a)		(27,175)		(25,436)
Exceptional items in relation to the pension scheme	17		-		(652)
Investment management expenses			(7)		(155)
Corporate Social Responsibility donations	4(b)		(7)		(255)
Total expenses			**(114,385)**		**(106,634)**
(Loss)/profit on ordinary activities before tax	5		(2,215)		9,375
Tax on loss/(profit) on ordinary activities	6		93		(1,848)
(Loss)/profit for the financial year			**(2,122)**		7,527

2 Consolidated Statement of Comprehensive Income for the year ended 31 December 2019	Note	2019 (£'000)	2018 (£'000)
(Loss)/profit for the financial year		(2,122)	7,527
Post employment actuarial (loss)/gain, net of tax	17	(75)	1,151
Revaluation surplus		145	-
Currency translation differences, net of tax		(36)	0
Total comprehensive income for the year		**(2,088)**	**8,678**

The results for the period have all arisen from continuing operations.

3 Consolidated Statement of Financial Position as at 31 December 2019

	Note	2019 (£'000)	2018 (£'000)
Assets			
Post employment benefits	17	13,618	13,307
Intangible assets	9	365	892
Property, plant and equipment	10	5,591	4,946
Investment property	11	3,557	2,712
Deferred acquisition costs	1(c)	4,421	4,226
Financial assets	12	185,974	190,510
Loans and other receivables			
– Debtors arising out of direct insurance operations	13	40,528	39,254
– Corporation tax recoverable		1,213	–
– Other debtors		1,698	392
– Prepayments and accrued income		1,057	1,094
Cash and cash equivalents		7,532	7,186
Total assets		**265,554**	**264,519**
Liabilities and equity			
Reserves		189,789	191,878
Post employment benefits	17	657	634
Insurance liabilities			
– Provision for unearned premiums	1(a)	48,098	47,695
– Claims outstanding	1(b)	11,007	9,542
Deferred tax	7	2,007	1,473
Trade and other payables			
– Payables arising out of direct insurance operations		4,837	5,447
– Other creditors		9,159	7,014
– Current tax liabilities		–	836
Total equity and liabilities		**265,554**	**264,519**

Consolidated Statements continued

4 Consolidated Statement of Changes in Equity for the year ended 31 December 2019	Note	Retained earnings (£'000)	Currency translation differences (£'000)	Reserves (£'000)
At 1 January 2018		183,249	(49)	183,200
Profit for the year		7,527	–	7,527
Other comprehensive income				
– Post employment actuarial gain, net of tax	17	1,151	–	1,151
– Currency translation differences, net of tax		–	0	0
At 31 December 2018		191,927	(49)	191,878
Adjustment for IFRS 16	II(a)	(1)	–	(1)
Revised balance as at 1 January 2019		**191,926**	(49)	**191,877**
Loss for the year	II(a)	(2,122)	–	(2,122)
Other comprehensive income				
– Post employment actuarial loss, net of tax	17	(75)	–	(75)
– Revaluation surplus		145	–	145
– Currency translation differences, net of tax		–	(36)	(36)
At 31 December 2019		**189,874**	**(85)**	**189,789**

5 Consolidated Statement of Cash Flows for the year ended 31 December 2019	Note	2019 (£'000)	2018 (£'000)
Cash flows from operating activities			
Cash generated from operations	14	2,748	7,091
Net tax (paid)/recovered		(1,411)	1,013
Net receipts/(withdrawals) from financial assets		1,849	(6,723)
Net payments for investment property		(1,677)	(274)
Lease incentive		(617)	–
Net cash from operating activities		892	1,107
Cash flows from investing activities			
Purchase of intangible asset		(200)	(861)
Purchases of property, plant and equipment		(227)	(128)
Proceeds from sales of property, plant and equipment		43	38
Net cash used in investing activities		(384)	(951)
Cash flows from financing activities			
Repayment of lease liabilities		(106)	-
Payment of interest on lease liabilities		(20)	-
Net cash used in financing activities		(126)	-
Net increase in cash and cash equivalents		382	156
Cash and cash equivalents at beginning of year		7,186	7,030
Currency translation differences		(36)	0
Cash and cash equivalents at end of year		7,532	7,186

Parent Company Statements

1 Parent Company Statement of Financial Position as at 31 December 2019	Note	2019 (£'000)	2018 (£'000)
Assets			
Post employment benefits	17	13,618	13,307
Investments in group undertakings	8	934	934
Intangible assets	9	365	892
Property, plant and equipment	10	5,346	4,894
Deferred acquisition costs	1(c)	4,421	4,226
Financial assets	12	185,974	190,510
Loans and other receivables			
– Debtors arising out of direct insurance operations	13	40,528	39,254
– Amounts owed by Group undertakings		5,579	2,965
– Corporation tax recoverable		965	–
– Other debtors		1,062	1
– Prepayments and accrued income		1,000	1,012
Cash and cash equivalents		1,896	2,449
Total assets		**261,688**	**260,444**
Liabilities			
Reserves		186,935	188,781
Post employment benefits	17	657	634
Insurance liabilities			
– Provision for unearned premiums	1(a)	48,098	47,695
– *Claims outstanding*	1(b)	11,007	9,542
Deferred tax	7	2,007	1,473
Trade and other payables			
– Payables arising out of direct insurance operations		4,837	5,447
– Other creditors		8,147	6,098
– Current tax liabilities		–	774
Total equity and liabilities		**261,688**	**260,444**

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

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

The accounts on pages 41 to 71 were approved by the Board of Directors on 19 March 2020 and were signed on its behalf by:

Nathan Irwin *Chief Executive*

Parent Statements continued

2 Parent Company Statement of Changes in Equity for the year ended 31 December 2019	Note	Retained earnings (£'000)	Currency translation differences (£'000)	Reserves (£'000)
At 1 January 2018		181,021	–	181,021
Profit for the year		6,609	–	6,609
Other comprehensive income				
– Pension scheme actuarial gain, net of tax	17	1,151	–	1,151
At 31 December 2018		188,781	–	188,781
Adjustment for IFRS 16	II(a)	1	–	1
Revised balance as at 1 January 2019		188,782	–	188,782
Loss for the year		(1,917)	–	(1,917)
Other comprehensive income				
– Pension scheme actuarial loss, net of tax	17	(75)	–	(75)
– Revaluation surplus		145	–	145
At 31 December 2019		**186,935**	–	**186,935**

3 Parent Company Statement of Cash Flows for the year ended 31 December 2019	Note	2019 (£'000)	2018 (£'000)
Cash flows from operating activities			
Cash (used by)/ generated from operations	14	(1,398)	4,836
Net tax (paid)/recovered		(1,078)	1,144
Net receipts/(withdrawals) from financial assets		1,849	(6,723)
Net cash used in operating activities		(627)	(743)
Cash flows from investing activities			
Purchase of intangible asset		(200)	(861)
Purchases of property, plant and equipment		(213)	(133)
Proceeds from sales of property, plant and equipment		43	38
Dividends from subsidiaries		495	120
Net cash used in investing activities		(370)	(836)
Cash flows from financing activities			
Repayment of lease liabilities		(42)	–
Payment of interest on lease liabilities		(9)	–
Net cash used in financing activities		(51)	–
Net decrease in cash and cash equivalents		(553)	(1,579)
Cash and cash equivalents at beginning of year		2,449	4,028
Cash and cash equivalents at end of year		1,896	2,449

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 adopted by the European Union. 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 2019. 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 principal accounting policies are set out below.

(a) Income

Premiums receivable relate to the premiums on contracts incepted 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 related claims risk profile. Net insurance premium income represents income earned during the year.

Premium debtors include premiums relating to policies incepted during the year where the premium may be due at the balance sheet date or not due until the following year. Reinsurance premiums payable relate to contracts entered into during the year. The reinsurers' share of unearned premiums relate to the unexpired part of the policy in force at the balance sheet date. Administration income represents amounts receivable under healthcare administration contracts. Where contracts span more than one financial year the recognition of payments made in advance are deferred until the following year.

The Group applies IFRS 15 'Revenue from contracts with customers', which establishes a principles based approach for revenue recognition and uses the concept of recognising revenue when, or as, performance obligations are satisfied and the control of goods and services is transferred.

The Group adopted IFRS 16 'leases' on 1 January 2019 which requires operating leases to be treated in the same manner as finance leases with the exception of some short-term leases and leases of low value assets. 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. The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Under IFRS 16, the classification of cash flows has been amended as the lease payments will be split into a principal and interest portion and presented as financing and operating cash flows respectively. The Group has applied the modified retrospective transition method, and consequently, comparative information is not restated.

Within opening balances as at 1 January 2019, the Group has recognised £0.7 million of continuing right of use assets and £0.7m continuing IFRS 16 lease liability recognised, representing the obligation to make lease payments. The Group has made no adjustments to reflect prepayments and rent-free periods due to the nature of its leases.

The transition impact on the closing 2019 consolidated balance sheet is shown in the table below.

Group **Consolidated income statement**	**2019** (£'000)	**2018** (£'000)
Operating and administrative expenses		
Under previous standard	(27,185)	-
Under IFRS 16	(27,175)	-
Impact of IFRS 16	**(10)**	**-**

The impact of taxation would be the adjustment to (loss)/profit on ordinary activities before tax at the prevailing rate of taxation; 19% in the current year (2018: 19%).

Accounting Policies continued

Consolidated statement of financial position	2019 (£'000)	2018 (£'000)
Reserves		
Under previous standard	189,790	-
Under IFRS 16	189,789	-
Impact of IFRS 16	1	-

Consolidated statement of changes in equity	2019 (£'000)	2018 (£'000)
Loss for the year		
Under previous standard	(2,132)	-
Under IFRS 16	(2,122)	-
Impact of IFRS 16	(10)	-

Company Statement of financial position	2019 (£'000)	2018 (£'000)
Reserves		
Under previous standard	186,934	-
Under IFRS 16	186,935	-
Impact of IFRS 16	(1)	-

Statement of changes in equity	2019 (£'000)	2018 (£'000)
Loss for the year		
Under previous standard	(1,916)	-
Under IFRS 16	(1,917)	-
Impact of IFRS 16	1	-

For each lease, the lease term has been calculated as the non-cancellable period of the lease contract. The Group has elected to use the following practical expedients allowed by the standard:

- the exclusion of initial direct costs from the measurement of the right of use asset;
- IFRS 16 has only been applied to contracts that were previously classified as operating leases; and
- lease payments for contracts with a duration of 12 months or less and contracts for which the underlying asset is of a low value have continued to be expensed through the consolidated income statement.

The reconciliation from operating commitments disclosed under IAS 17 at 31 December 2018 to the lease liability recognised on the parent and the consolidated balance sheets at 1 January 2019 is shown in the statement of changes in equity and consolidated statement of changes in equity.

IFRS 17 'Insurance contracts' is effective for periods beginning on or after 1 January 2023, the Group has chosen not to adopt the standard early.

(b) Acquisition costs
Acquisition costs, representing direct and indirect expenses, are deferred and amortised over the period in which the related premiums are earned.

(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 (2018: 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 creditors 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.

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. 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 debtors. Amounts expected to be recoverable from insurers in respect of claims incurred but not reported are included in reinsurance claims outstanding.

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) Operating leases
In the current year the Group has transitioned to IFRS 16 'Leases', which eliminates the distinction between operating and finance leases, bringing most leases onto the balance sheet for lessees, the right of use asset shows within property, plant and equipment and the lease liability is within other creditors: lessor accounting remains largely unchanged.

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.

The adoption has resulted in changes to the presentation of the leases for the Business Continuity site, Rivergate House and a car leased during the period, in addition to the premises for the Group's World Class Service company.

(g) Financial assets and liabilities
IFRS 9 Financial Instruments is effective from 1 January 2018, however the Group has chosen to apply the optional temporary exemption from 2018 as its activities are predominantly connected with insurance, as defined by the amendments to IFRS 4 Insurance Contracts. WPA Group's financial statements as at 31 December 2015 evidence that more than 90% of total liabilities were related to insurance business.

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 and expected credit losses, using the effective interest rate method. Trade and other payables/receivables are recognised at cost, less allowances for impairment and expected credit losses, 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 the latest traded price or 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.

Accounting Policies continued

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.

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

(i) 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.

(j) 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.

(k) 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.

(l) 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	=	6 years
Motor vehicles	=	4 years
Computer equipment	=	3 years

The right of use asset is depreciated on a straight line basis over the course of the related leases.

(m) Investment property
Investment property is valued annually by the Directors or by independent specialists.

(n) 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.

(o) 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 discounted medical insurance to former employees.

III. Significant estimates and judgements

(a) Estimates
The most significant estimate made in the preparation of these financial statements is the estimation of the provision for claims incurred but not reported at the balance sheet date. The valuation method for claims outstanding is described in section (e) of the basis of accounting. Sensitivities are shown in note 20.

The valuation of properties is based on a range of assumptions and estimates, with reference to empirical experience of the local property market. Considering the current macroeconomic conditions there is a level of uncertainty that could materially affect the properties' valuations.

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.

(b) Judgements
The recognition of the Pension 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 a condition under IFRIC 14. The Directors have concluded that this judgement is the correct accounting treatment under IFRIC 14, but also consider that the asset is unrealistic on an economic basis.

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 value of investment property is deemed to be cost if the fair value cannot be reliably determined due to being under construction. The valuation techniques include inputs for the investment properties that are unobservable.

Notes to the Accounts

for the year ended 31 December 2019

1 Disclosures for insurance contracts

(a) Movement in unearned premiums	2019 (£'000) Gross	Reinsurance	Net	2018 (£'000) Gross	Reinsurance	Net
Balance at 1 January	48,492	(797)	47,695	48,236	(808)	47,428
Premiums written in the year	113,760	(4,600)	109,160	111,591	(3,107)	108,484
Premiums earned during the year	(112,550)	3,793	(108,757)	(111,335)	3,118	(108,217)
Balance at 31 December	**49,702**	**(1,604)**	**48,098**	**48,492**	**(797)**	**47,695**

(b) Movement in claims outstanding	2019 (£'000) Gross	Reinsurance	Net	2018 (£'000) Gross	Reinsurance	Net
Balance at 1 January	9,732	(190)	9,542	9,504	(148)	9,356
Movement in claims incurred in prior years	(562)	–	(562)	(1,247)	–	(1,247)
Claims incurred in the current year	91,958	(4,200)	87,758	84,234	(2,851)	81,383
Claims paid during the year	(89,761)	4,030	(85,731)	(82,759)	2,809	(79,950)
Balance at 31 December	**11,367**	**(360)**	**11,007**	**9,732**	**(190)**	**9,542**

(c) Movement in deferred acquisition costs	2019 (£'000)	2018 (£'000)
Balance at 1 January	4,226	4,648
Movement in the year	195	(422)
Balance at 31 December	**4,421**	**4,226**

2 Other income

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

3 Investment return

	2019 (£'000)	2018 (£'000)
Dividend income	294	383
Interest received	1,196	1,388
Gains/(losses) on cash exchange rate movements	1,893	(387)
	3,383	1,384
Net gains on realisation of investments	1,510	380
Unrealised investment (losses)/gains	(2,687)	3,642
Net interest on pension scheme	373	287
Revaluation of investment property	(1,449)	–
Rental income from investment property	102	–
	1,232	**5,693**

4 Net operating expenses

	2019 (£'000)	2018 (£'000)
(a) Other operating and administrative expenses		
Acquisition costs	11,570	10,803
Change in deferred acquisition costs	(195)	422
Administrative expenses	22,725	20,091
FSCS levy	(9)	331
Gross operating expenses	34,091	31,647
Claims handling expenses	(6,916)	(6,211)
Net operating expenses	**27,175**	**25,436**
(b) Corporate Social Responsibility donations		
Donations to the WPA Benevolent Foundation Limited	–	250
Donations to other charitable activities	7	5
Total donations to benevolent and charitable activities	**7**	**255**

5 (Loss)/profit on ordinary activities before tax

	2019 (£'000)	2018 (£'000)
(Loss)/profit on ordinary activities before tax is stated after:		
Property revaluation surplus	199	98
Amortisation	(727)	(867)
Depreciation on property, plant and equipment	(427)	(372)
Profit on disposal of property, plant and equipment	13	9
Auditor remuneration for:		
– Audit (Company £142,000 (2018: £130,000))	(195)	(148)
– Other assurance work – other services	(28)	(32)
Operating lease costs	(121)	(127)

6 Tax

	2019 (£'000)	2018 (£'000)
(a) Analysis of (credit)/charge in year		
UK corporation tax at 19.00% (2018: 19.00%)	(635)	1,355
Adjustment for prior periods	(28)	105
	(663)	1,460
Overseas tax	25	34
Total current tax	(638)	1,494
Deferred tax (note 7)		
– Origination and reversal of timing differences	145	(102)
– Movement on post employment benefits	400	456
Total deferred tax	545	354
Tax (credit)/charge for the current year	**(93)**	**1,848**

Note 6 continues overleaf...

Notes to the Accounts continued

The principal rate of UK corporation tax was 19% for the financial year 2019.

(b) Factors affecting the tax (credit)/charge for the year
A reconciliation of the tax (credit)/charge for the year to the (credit)/charge that would result from applying the standard UK corporation tax rate to the (loss)/profit before tax is given below:

	2019 (£'000)	2018 (£'000)
(Loss)/profit before tax	**(2,215)**	**9,375**
Notional (credit)/charge at UK corporation tax rate of 19.00% (2018: 19.00%)	(417)	1,781
Franked investment income not taxable	(56)	(73)
Permanent timing differences	314	120
Items outside the scope of UK tax	(30)	(13)
Tax relating to overseas subsidiaries	25	34
Changes in tax rates	(47)	(43)
Adjustment to prior periods' tax	(28)	105
Deferred tax: prior year	146	(63)
Tax on (loss)/profit on ordinary activities	**(93)**	**1,848**

(c) Factors that may affect future tax charges
The principal rate of UK corporation tax was 19% for the financial year 2019 (2018: 19%). Any future changes in tax rates will not have a material impact on the Group. There are no other factors that may affect future charges.

(d) Analysis of tax credit/(charge) relating to components of other comprehensive income	2019 (£'000) Before tax	2019 (£'000) Tax credit	2019 (£'000) After tax	2018 (£'000) Before tax	2018 (£'000) Tax charge	2018 (£'000) After tax
Currency translation differences	(36)	–	(36)	–	–	–
Movement on pension scheme (note 17)	(86)	11	(75)	1,386	(235)	1,151
Other comprehensive income	**(122)**	**11**	**(111)**	**1,386**	**(235)**	**1,151**

All tax credits/(charges) relate to deferred tax.

7 Deferred tax	Pension scheme	Trading losses	Post employment medical benefits	Other	Total
Group	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
At 1 January 2018	(1,235)	140	108	103	(884)
Movement in provision recognised in Income Statement	(456)	(43)	(1)	146	(354)
Movement in provision recognised in other comprehensive income	(235)	–	–	–	(235)
At 31 December 2018	(1,926)	97	107	249	(1,473)
Movement in provision recognised in Income Statement	(400)	(98)	4	(51)	(545)
Movement in provision recognised in other comprehensive income	11	–	–	–	11
At 31 December 2019	**(2,315)**	**(1)**	**111**	**198**	**(2,007)**

Note 7 continues on opposite page...

Company	Pension scheme (£'000)	Trading losses (£'000)	Post employment medical benefits (£'000)	Other (£'000)	Total (£'000)
At 1 January 2018	(1,235)	140	108	103	(884)
Movement in provision recognised in Income Statement	(456)	(43)	(1)	146	(354)
Movement in provision recognised in other comprehensive income	(235)	–	–	–	(235)
At 31 December 2018	(1,926)	97	107	249	(1,473)
Movement in provision recognised in Income Statement	(400)	(98)	4	(51)	(545)
Movement in provision recognised in other comprehensive income	11	–	–	–	11
At 31 December 2019	**(2,315)**	**(1)**	**111**	**198**	**(2,007)**

If the freehold property was sold at its current market value there would be a capital loss of £4,820,000 (2018: £4,900,000). There is a deferred tax asset of £820,000 (2018: £833,000) 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.

8 Investment in Group undertakings	2019 (£'000)	2018 (£'000)
Shares at cost	934	934

The following companies are directly or indirectly wholly owned subsidiaries and 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:

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)
WPA Pension Trustees Limited	Trustee company (No. 04710981)
Delos IT Solutions Limited	Dormant company (No. 10458139)
Self-Pay Limited	Dormant company (No. 04174987)
Stoploss Insurance Services Limited	Dormant company (No. 03831968)
WPA Insurance Services Limited	Dormant company (No. 02593389)
WPA Investments (Development) Limited	Dormant company (No. 02593390)
WPA Property Services Limited (incorporated 13 December 2017)	Dormant company (No. 11110094)
XS Health Limited	Dormant company (No. 03926481)
XS Insurance Services Limited	Dormant company (No. 03783854)

*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. The companies listed as dormant or trustee are exempt from preparing, filing and requiring audited accounts under s.394A, s.448A and s.479A respectively of the Companies Act 2006.

Notes to the Accounts continued

9 Intangible assets

Group	Total (£'000)
Cost or valuation	
At 1 January 2018	1,618
Additions	861
At 31 December 2018	2,479
Additions	200
At 31 December 2019	**2,679**
Amortisation	
At 1 January 2018	720
Provided in the year	867
At 31 December 2018	1,587
Provided in the year	727
At 31 December 2019	**2,314**
Net book value at 31 December 2018	892
Net book value at 31 December 2019	**365**

Company	
Cost or valuation	
At 1 January 2018	1,618
Additions	861
At 31 December 2018	2,479
Additions	200
At 31 December 2019	**2,679**
Amortisation	
At 1 January 2018	720
Provided in the year	867
At 31 December 2018	1,587
Provided in the year	727
At 31 December 2019	**2,314**
Net book value at 31 December 2018	892
Net book value at 31 December 2019	**365**

Intangible assets represent software.

Amortisation is shown in operating and administrative expenses.

10 Property, plant and equipment	Freehold property	Furniture and fittings	Computer equipment	Motor vehicles	Right of use asset	Total
Group	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Cost or valuation						
At 1 January 2018	5,018	2,187	3,023	463	-	10,691
Additions	-	15	20	93	-	128
Disposals	-	(2)	(21)	(69)	-	(92)
Revaluation	98	-	-	-	-	98
At 31 December 2018	5,116	2,200	3,022	487	-	10,825
Additions	-	27	98	102	676	903
Disposals	-	(8)	(744)	(189)	-	(941)
Revaluation	199	-	-	-	-	199
At 31 December 2019	**5,315**	**2,219**	**2,376**	**400**	**676**	**10,986**
Depreciation						
At 1 January 2018	584	1,807	2,933	246	-	5,570
Provided in the year	98	134	46	94	-	372
Elimination in respect of disposals	-	-	(20)	(43)	-	(63)
At 31 December 2018	682	1,941	2,959	297	-	5,879
Provided in the year	118	95	42	77	95	427
Elimination in respect of disposals	-	(8)	(744)	(159)	-	(911)
At 31 December 2019	**800**	**2,028**	**2,257**	**215**	**95**	**5,395**
Net book value at 31 December 2018	4,434	259	63	190	-	4,946
Net book value at 31 December 2019	**4,515**	**191**	**119**	**185**	**581**	**5,591**

Note 10 continues overleaf...

Notes to the Accounts continued

Company	Freehold property (£'000)	Furniture and fittings (£'000)	Computer equipment (£'000)	Motor vehicles (£'000)	Right of use asset (£'000)	Total (£'000)
Cost or valuation						
At 1 January 2018	5,003	1,988	2,884	428	-	10,303
Additions	-	20	19	94	-	133
Disposals	-	(3)	(21)	(69)	-	(93)
Revaluation	98	-	-	-	-	98
At 31 December 2018	5,101	2,005	2,882	453	-	10,441
Additions	-	39	79	95	456	669
Disposals	-	(9)	(745)	(189)	-	(943)
Revaluation	199	-	-	-	-	199
At 31 December 2019	**5,300**	**2,035**	**2,216**	**359**	**456**	**10,366**
Depreciation						
At 1 January 2018	584	1,642	2,797	232	-	5,255
Provided in the year	98	113	54	90	-	355
Elimination in respect of disposals	-	-	(20)	(43)	-	(63)
At 31 December 2018	682	1,755	2,831	279	-	5,547
Provided in the year	118	98	39	91	40	386
Elimination in respect of disposals	-	(9)	(745)	(159)	-	(913)
At 31 December 2019	**800**	**1,844**	**2,125**	**211**	**40**	**5,020**
Net book value at 31 December 2018	4,419	250	51	174	-	4,894
Net book value at 31 December 2019	**4,500**	**191**	**91**	**148**	**416**	**5,346**

The properties were valued on 31 December 2019 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. The properties were valued on 31 December 2018 at open market value for existing use by the Directors of the Company. 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 (2018: £9,402,000) and cost less depreciation of £4,202,000 (2018: £4,390,000).

The Level 3 fair value measurement used for properties are those 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 £225,000.

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.

In 2017 WPA Investments Limited purchased a property, located in Taunton. The refurbishment of the property was completed as planned in 2019 and leased to a tenant from July. The property has been valued as at 31 December 2019 by an independent valuation specialist, as detailed in note 10. Investment property is categorised as level three within the fair value hierarchy.

Group	**2019** (£'000)	**2018** (£'000)
At 1 January	2,712	2,438
Additions through expenditure	1,677	274
Lease incentive	617	-
Movement in fair value	(1,449)	-
At 31 December	**3,557**	**2,712**

12 Financial assets

	Carrying value	
Group and Company	**2019** (£'000)	**2018** (£'000)
Fair value through profit and loss		
Equity	7,650	10,000
Collective investment funds	31,304	16,731
Forward currency contracts	1,806	0
Deposits with credit institutions at floating rates	34,546	36,439
Held to maturity		
Government issued securities	106,404	107,916
Debt and other fixed income securities	4,264	19,424
	185,974	**190,510**

Forward currency contracts were taken out during the year to hedge against part of the exposure to US Dollars and Japanese Yen in the investment portfolio. The contracts held at the year end had a maturity date of 31 January 2020.

Notes to the Accounts continued

13 Debtors arising from direct insurance operations

As at 31 December 2019 premium due but not received amounted to £890,000 (2018: £889,000). A provision for impairment of £33,000 was made as at 31 December 2019 (2018: £47,000). 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 £181,000 (2018: £106,000) is maintained to recognise that some contracts are cancelled after renewal documentation has been issued. All debtors 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	2019 (£'000)	2018 (£'000)
Premium due	890	889
Premium not yet due	39,744	38,352
Allowance for bad and doubtful debts	(214)	(153)
Prepaid claims	108	166
	40,528	**39,254**

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

Group and Company	2019 (£'000)	2018 (£'000)
At 1 January	153	131
- Amounts charged to Income Statement	242	128
- Amounts written off	(181)	(106)
At 31 December	**214**	**153**

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	2019 (£'000)	2018 (£'000)
(Loss)/Profit before tax	**(2,215)**	9,375
Adjustments for:		
– Amortisation	727	867
– Depreciation	427	372
– Profit on disposal of property, plant and equipment	(13)	(9)
– Pension scheme exceptional items	–	652
– Net interest on pension scheme	(373)	(287)
– *Increase on revaluation of property, plant and equipment*	(54)	(98)
– Decrease on revaluation of investment property	1,449	–
– (Increase)/decrease in deferred acquisition costs	(195)	422
– Unrealised investment losses/(gains)	2,687	(3,642)
Operational cash flows before movements in working capital	2,440	7,652
Increase in debtors arising out of direct insurance operations	(1,274)	(1,546)
(Increase)/decrease in other debtors	(632)	131
Decrease/*(increase) in prepayments and accrued income*	37	(202)
Increase in insurance liabilities	1,868	453
(Decrease)/increase in payables arising out of direct insurance operations	(610)	428
Increase in other creditors	919	175
Cash generated from operations	**2,748**	**7,091**

Company	2019 (£'000)	2018 (£'000)
(Loss)/Profit before tax	**(2,035)**	8,170
Adjustments for:		
– Amortisation	727	867
– Depreciation	386	355
– Profit on disposal of property, plant and equipment	(13)	(8)
– Pension scheme exceptional items	–	652
– Net interest on pension scheme	(373)	(287)
– Increase on revaluation of property, plant and equipment	(54)	(98)
– *(Increase)/decrease in deferred acquisition costs*	(195)	422
– Dividends from subsidiaries	(495)	(120)
– Unrealised investment losses/(gains)	2,687	(3,642)
Operational cash flows before movements in working capital	635	6,311
Increase in debtors arising out of direct insurance operations	(1,274)	(1,546)
Increase in amounts owed by Group undertakings	(2,614)	(450)
Increase in other debtors	(602)	–
Decrease/(increase) in prepayments and accrued income	12	(174)
Increase in insurance liabilities	1,868	453
(Decrease)/increase in payables arising out of direct insurance operations	(610)	428
Increase/(decrease) in other creditors	1,187	(186)
Cash (used by)/generated from operations	**(1,398)**	**4,836**

Notes to the Accounts continued

15 Employee information

	Group 2019	Group 2018	Company 2019	Company 2018
Monthly average number of persons (including Executive Directors) employed on permanent contracts	288	292	243	248
Monthly average FTE (including Executive Directors) employed on permanent contracts	264	269	221	226

		2019 (£'000)	2018 (£'000)	2019 (£'000)	2018 (£'000)
Staff costs:	Wages and salaries	13,471	11,184	13,070	10,733
	Social security costs	1,460	1,124	1,437	1,118
	Other pension costs	819	810	789	790
		15,750	**13,118**	**15,296**	**12,641**

16 Directors' emoluments

	2019 (£'000)	2018 (£'000)
– Salary	1,629	1,740
– Pension related benefits	217	265
– Benefits-in-kind	184	56
– Amounts payable under short-term incentive plans	164	303
– Amounts payable under long-term incentive plans	118	174
Aggregate emoluments	**2,312**	**2,538**
Highest paid Director		
– Salary	369	483
– Pension related benefits	74	97
– Benefits-in-kind	21	14
– Amounts payable under short-term incentive plans	77	95
– Amounts payable under long-term incentive plans	54	65
Aggregate emoluments for highest paid Director	**595**	**754**

There were eleven Directors in the year (2018: eleven). The Remuneration Committee approved a compensation for loss of office payment totalling £2m in connection with the retirement from the position of Chief Executive Officer which included amounts in lieu of the contractual 24 months notice period together with accrued short-term and long-term incentive bonuses.

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.

These accounts comply with the accounting standard IAS 19R (Employee Benefits).

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 2015 demonstrated that the minimum funding requirement was adequately covered at the time. The triennial valuation as at 31 December 2018 has not been finalised. A set of assumptions have been agreed by the Trustees. The liabilities reflected in these accounts as at 31 December 2019 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 increase is reflected in the 2018 numbers below as a past service cost. The cost was charged to the Income Statement in 2018 as an exceptional item in relation to the Scheme.

The major assumptions used by the actuary were:		2019	2018
Rate of increase of pensions in payment		3.03%	3.24%
Discount rate		2.00%	2.80%
Inflation assumption	– RPI	3.10%	3.35%
	– CPI	2.60%	2.85%
Members taking maximum lump sum		75%	75%
Proportions married		85%	85%
Expected return on Scheme assets		2.0%	2.8%

The weighted average duration of the defined benefit obligations is 20 years (2018: 21 years).

A 0.25% increase in the assumption made for discount rate would, in isolation, have decreased the valuation of Scheme liabilities by £2,261,000 (2018: £2,092,000); 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 £1,340,000 (2018: £1,184,000); 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 £1,618,000 (2018: £1,344,000). If the proportions married were to increase by 10% this would increase the Scheme liabilities by £458,000 (2018: £442,000), 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:	2019		2018	
	Male	Female	Male	Female
Member age 60 (current life expectancy)	27.6	30.4	29.8	31.3
Member age 45 (life expectancy at age 60)	29.8	32.7	31.5	33.1

Note 17 continues overleaf...

Notes to the Accounts continued

Scheme assets:	2019 (£'000)	2018 (£'000)
Gilts	54,913	52,463
Annuity policies	-	122
Other	57	(52)
Total market value of assets	54,970	52,533
Actuarial value of liabilities	(41,352)	(39,226)
Scheme asset	13,618	13,307
Related deferred tax asset/(liability)	11	(235)
Net Scheme asset	**13,629**	**13,072**

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

Analysis of Scheme costs included within net operating expenses (note 4)	2019 (£'000)	2018 (£'000)
Past service cost (equalising GMPs)	-	388
Loss on transfers out	-	264
Pension scheme past service charges	**-**	**652**

Analysis of net interest cost on the Scheme included within investment return (note 3)	2019 (£'000)	2018 (£'000)
Expected return on Scheme assets.	1,443	1,316
Interest on Scheme liabilities	(1,070)	(1,029)
Net interest on the Scheme	**373**	**287**

Statement of Changes in Equity	2019 (£'000)	2018 (£'000)
Return on plan assets (excluding interest income)	3,043	(1,662)
Changes in assumptions	(3,129)	3,048
Actuarial (loss)/gain recognised	(86)	1,386
Related deferred tax credit/(charge)	11	(235)
Changes in equity	**(75)**	**1,151**

Movement in value of the Scheme during the year

Change in benefit obligation	2019 (£'000)	2018 (£'000)
Present value of benefit obligation at beginning of year	39,226	44,467
Past service cost (equalising GMPs)	-	388
Loss on transfers out	-	264
Interest cost	1,070	1,029
Actuarial changes		
- Effect of changes in demographic assumptions	(1,179)	-
- Effect of changes in financial assumptions	5,162	(3,160)
- Effect of experience adjustments	(878)	115
Benefits paid	(2,049)	(3,877)
Present value of benefit obligations at end of year	**41,352**	**39,226**

Note 17 continues on opposite page...

Change in Scheme assets	2019 (£'000)	2018 (£'000)
Fair value of Scheme assets at beginning of year	52,533	56,756
Interest income	1,443	1,316
Return on Scheme assets (excluding interest income)	3,043	(1,662)
Benefits paid and transfers out	(2,049)	(3,877)
Fair value of Scheme assets at end of year	**54,970**	**52,533**

History of assets and liabilities	2019 (£'000)	2018 (£'000)
Total market value of assets	54,970	52,533
Present value of Scheme liabilities	(41,352)	(39,226)
Scheme surplus	**13,618**	**13,307**

History of experience gains and losses	2019	2018
Return on Scheme assets	5.5%	(3.2%)
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 (2018: no normal contributions). During the year the Company made no special contributions to the Scheme (2018: no special contributions to the Scheme).

Since the transition date the cumulative gain recognised through the Statement of Comprehensive Income is £9,063,000 (2018: £9,000,000).

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 £1,165,000 (2018: £1,179,000) were made to defined contribution schemes.

Group and Company	Pension Scheme surplus (£'000)	Post employment medical provision (£'000)
At 1 January 2018	12,289	(637)
Movement in the year	1,018	3
At 31 December 2018	13,307	(634)
Movement in the year	311	(23)
At 31 December 2019	**13,618**	**(657)**

Free or discounted medical insurance cover is 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% (2018: 1.6%) and the discount rate of 2.0% (2018: 2.8%). Mortality assumptions are taken from the S3PA tables with CMI 2015 projections and 1.5% pa long-term rate (2018: S1 light table with CMI 2012 projections and 1.5% pa long-term rate of improvement).

Notes to the Accounts continued

18 Commitments and contingent liabilities	2019 (£'000)		2018 (£'000)	
	Group	Company	Group	Company
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
– Within one year	121	45	127	52
– Between one and five years	287	180	364	180
– After five years	223	251	268	296
	631	**476**	**759**	**528**

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

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:	2019 (£'000)	2018 (£'000)
Administration charge by WPA Limited	(9,377)	(9,385)
Administration charge to WPA Limited	9,866	9,545
	489	**160**

Balances outstanding:		
Gross receivable by WPA Limited	5,685	3,116
Gross payable by WPA Limited	(106)	(150)
	5,579	**2,966**

b) Key management compensation

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

	2019 (£'000)	2018 (£'000)
– Salary	1,629	1,740
– Pension related benefits	217	265
– Benefits-in-kind	184	56
– Amounts payable under short-term incentive plans	164	303
– Amounts payable under long-term incentive plans	118	174
Aggregate emoluments	**2,312**	**2,538**

Key management personnel purchased insurance policies on an arm's length basis with premium payments of £715 in the year (2018: £694).

Note 19 continues on opposite page.

c) Other related parties

During the year no donations were made by the Company to the WPA Benevolent Foundation Limited (the Foundation), a company limited by guarantee and affiliated to the Group (2018: £250,000). The objective of the Foundation is the promotion of good health in young people through supporting projects 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 £45,000 (2018: £45,000).

The Company holds investments with a value of £9,811,000 (2018: £9,354,000) 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 10% (2018: 10%) of the fund.

During the year, the Company invested in The Far East Value Fund, an Asian collective investment fund of which Lord Cromer is one of the directors. The value of the investment made by the Company at the year end was £1,554,000. The Company holds 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. 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 funds at 31 December 2019 and 2018 were:

Geographical equity exposure	Number of funds	2019 (£'000)	Number of funds	2018 (£'000)
UK	1	5,088	2	3,573
US	2	5,715	–	–
Asia	4	15,490	2	11,597
Global	3	5,011	1	1,561
	10	**31,304**	**5**	**16,731**

The principal financial assets held at 31 December 2019 and 2018, analysed by their fair value hierarchy levels were:

		2019 (£'000)	2018 (£'000)
Level 1	Forward currency contracts	1,806	0
	Deposits with credit institutions at floating rates	34,546	36,439
	Collective investment funds	14,243	–
Level 2	Collective investment funds	17,061	13,158
Level 3	Collective investment funds	–	3,573
	Equity	7,650	10,000
At amortised cost	Government issued securities	106,404	107,916
	Debt and other fixed income securities	4,264	19,424
		185,974	**190,510**

Note 20 continues overleaf...

Notes to the Accounts continued

Government issued securities, deposits with credit institutions at fixed rates, debt and other fixed income securities, loans and receivables and trade debtors are recognised on the balance sheet at amortised cost. The fair value of trade debtors 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 5 (2018: 20) direct corporate bond holdings and holdings in UK Government stocks and UK Treasury. These instruments are intended to be held to maturity and thus these are held at amortised cost totalling £110.7m within these financial statements. The estimated fair value of these instruments is £110.5m.

	Unquoted equities	
Reconciliation of Level 3 fair value measurements of financial assets:	**2019** (£'000)	**2018** (£'000)
Balance at 1 January	13,573	8,610
Total (losses)/gains recognised	(2,015)	5,068
Sales	(3,908)	(105)
Balance at 31 December	**7,650**	**13,573**

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, 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.

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

The level 3 equity represents a directly held equity that was unlisted in 2018 and subsequently listed in 2019. The equity is not actively traded on its Exchange. The equity is held at fair value, based on a range of estimates between £6.5m and £8.8m 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 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 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 £340,000 (2018: £400,000). If all equity values were to fall by 5% this would reduce asset values by £1,950,000 (2018: £1,340,000).

(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.

Note 20 continues on opposite page...

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 £106.4m. The maximum duration of UK Government stock held at amortised cost is two years.

(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 £1,038,000 of other creditors settled later than twelve months (2018: £1,319,000). 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, the carrying values approximate to the fair value.

	2019 (£'000)	2018 (£'000)
Creditors arising from direct insurance operations	4,837	5,447
Provision for outstanding claims	11,007	9,542
Corporation tax	–	836
Other creditors	9,159	7,014
	25,003	**22,839**

20.2 Insurance risk management
The principal insurance risks all relate to the ability to generate underwriting returns over the course of the insurance cycle. Some are within the control of management - maintaining an appropriate pricing structure, applying appropriate underwriting controls, collecting premiums due in a timely fashion; others are outside such control – changes in Government policy, the effectiveness of the NHS. The WPA risk register catalogues these risks and the action taken to control or mitigate them. Private medical insurance does not generally cover primary care and is directed towards elective procedures administered with curative intent; large scale disasters, including pandemics, would not normally give rise to treatment under this definition. In addition, the scale of the disaster might preclude the involvement of the private sector in any case. Risk is managed within the core underwriting business by the achievement of planned underwriting ratios and monitored through monthly management reports. The primary risk variable within the financial statements in relation to insurance risk is the provision for claims outstanding. A 5% increase in the provision would impact reserves by £460,000 (2018: £394,000).

20.3 Capital risk management
The Company is a not-for-profit organisation, which does not have to satisfy the appetite of shareholders for ever increasing 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 system, 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.

During the year the Group commenced reporting under the new Solvency II environment. The Board receive regular management information updates on the capital position when measured against the Standard Formula and have approved the holistic risk management approach as captured in the ORSA. As at 31 December 2019 the Group's solvency coverage against the standard formula assessment was 557% (unaudited) (2018: 620%). 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 adopted by the EU:

IFRS 9	Financial instruments – classification and measurement
IFRS 17	Insurance 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 2023.

The Group is currently assessing the impact of IFRS 17, which is effective for annual reporting periods beginning on or after 1 January 2023.

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 2023.

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 2019 and 2018, 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 overleaf 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 two 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.

Note 22 continues on opposite page...

As at 31 December 2018	Solely Payments of Principal and Interest (£'000)	Fair Value Option (£'000)	Other (at FVTPL) (£'000)	Total (£'000)
Financial Assets				
Debt securities	127,340	–	–	127,340
Equity securities	–	–	10,000	10,000
Loans and receivables	–	–	39,646	39,646
Collective investment schemes	–	–	16,731	16,731
Derivatives	–	–	0	0
Cash and cash equivalents	–	–	43,625	43,625
Total financial assets	**127,340**	–	**110,002**	**237,342**
As at 31 December 2019				
Financial Assets				
Debt securities	110,667	–	–	110,667
Equity securities	–	–	7,650	7,650
Loans and receivables	–	–	43,440	43,440
Collective investment schemes	–	–	31,304	31,304
Derivatives	–	–	1,806	1,806
Cash and cash equivalents	–	–	42,078	42,078
Total financial assets	**110,667**	–	**126,278**	**236,945**
Change in fair value				
Financial Assets				
Debt securities	(16,673)	–	–	(16,673)
Equity securities	–	–	(2,350)	(2,350)
Loans and receivables	–	–	3,794	3,794
Collective investment schemes	–	–	14,573	14,573
Derivatives	–	–	1,806	1,806
Cash and cash equivalents	–	–	(1,547)	(1,547)
Total financial assets	**(16,673)**	–	**16,276**	**(397)**

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).

Note 22 continues overleaf…

Notes to the Accounts continued

As at 31 December 2018	Debt securities (£'000)	Equity securities (£'000)	Loans and receivables (£'000)	Collective investment schemes (£'000)	Derivatives	Cash and short-term deposits (£'000)	Total (£'000)
AA	107,916	–	–	–	–	1,004	108,920
A	4,209	–	–	–	–	29,335	33,544
BBB	10,193	–	–	–	–	12,729	22,922
Without external rating	5,022	10,000	39,646	16,731	–	557	71,956
	127,340	**10,000**	**39,646**	**16,731**	–	**43,625**	**237,342**
As at 31 December 2019							
AA	106,403	–	–	–	–	1,009	107,412
A	1,875	–	–	–	–	23,306	25,181
BBB	2,389	–	–	–	–	16,694	19,083
Without external rating	–	7,650	43,440	31,304	1,806	1,069	85,269
	110,667	**7,650**	**43,440**	**31,304**	**1,806**	**42,078**	**236,945**

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 2019	Carrying amount (£'000)	Fair Value (£'000)
Debt securities	110,667	110,456

23 Events after the reporting period

The global Covid 19 outbreak has required WPA to invoke our business continuity plans and we continue to operate to serve our customers. As a result of the outbreak there are no items that require adjustment in these financial statements. Given the financial strength of the business, which is evident on the Statement of Financial Position, the strength of the solvency position and the composition of the investment portfolio, the Directors are comfortable that the business has adequate resources and regulatory capital to continue as a going concern.

The corporation tax rate at the 31 December 2019 was 19% with an expected decrease to 17% from April 2020. The accounts have been drawn up on this basis. During the March 2020 budget the future rate change was removed and the on-going rate of 19% was substantively enacted on 17 March 2020. This change is most significant for deferred taxation. It does not result in a material difference to our deferred taxation figures.

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.

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WPA is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (Registration number 202608).

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