

PAYCARE
ANNUAL REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020

Company Registration Number: 00820791

EDWARDS
CHARTERED ACCOUNTANTS



PAYCARE

FINANCIAL STATEMENTS YEAR ENDED 31ST DECEMBER 2020

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PAYCARE**STATUTORY INFORMATION**

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

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

The directors present their strategic report for the year ended 31st December 2020.

Principal activity and review of the business

Principal activity

The principal activity of the company is the provision of healthcare cash benefit insurance plans. The activities of each group company in which the company has investments are shown in note 11 to the financial statements.

Income

During the year the group's total income, including unrealised gains on investments was £6,450,047 (2019 - £6,999,967) a decrease of 7.9% over the preceding year (2019 – 7.1% increase). Premium income decreased by 3.2% (2019 - increase 0.4%).

The impact of COVID resulted in a decrease in policyholder numbers. We anticipate that policyholder numbers lost in 2020 will recover to normal levels in the next two years.

Benefits

During the year the group paid benefits to 55,640 claimants (2019 – 85,364) amounting to £3,898,802 (2019 - £5,152,116) a decrease of 24.3% over the preceding year (2019 – 0.5% decrease). As a percentage of premium income, the value of claims paid was 60.9% (2019 – 77.9%).

Administration

During the year the group's operating costs were £1,774,452 (2019 - £1,658,048) representing a 7% increase (2019 – 3.4% increase) over the preceding year and accounting for 27.7% of premium income (2019 – 24.8%).

Reserves

At 31st December 2020, the group reserves increased to £6,747,803 (2019 – increased to £5,911,057) representing 105.3% of premium income (2019 – 89.4%). The deficit on unrealised reserves at the year end amounted to £31,259 (2019 – surplus of £80,812).

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

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Future Developments

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

The group uses the Own Risk and Solvency Assessment (ORSA) process to ensure that it has enough capital resources to meet the needs of its future developments.

Corporate Governance

The group will always endeavour to apply the highest standards of corporate governance and has a goal of continuous improvement in governance processes.

The role of the Board

The board is responsible for creating the framework within which the group operates and is collectively responsible to the group's stakeholders for the direction, promotion and oversight of the group to ensure its long-term success. It provides leadership for the group, devises strategy, ensures the necessary resources are available, and sets controls and standards. In doing so, the directors comply with their duties under section 172 of the Companies Act 2006.

Other core activities include obtaining assurance that material risks to the group are identified, defining the group's appetite for risk and ensuring that appropriate systems of risk management and internal control exist to mitigate such risks, as well as responsibility for ensuring the effectiveness of, and reporting on, the system of corporate governance. It also monitors performance and approves budgets and material initiatives and commitments. The board has a clearly articulated set of matters which are specifically reserved for its determination and has approved terms of reference for all board committees. The board is responsible for setting the levels of delegated authority, whilst retaining overall responsibility for the governance of the group. The board's schedule of matters reserved includes:

- Strategy
- Structure and capital
- Financial reporting and controls
- Internal controls and risk management
- Authorisation and approval levels
- Board membership
- Delegation of authority and policy development
- Corporate governance matters
- Major acquisitions, projects and contracts

For the year ended 31st December 2020 the company continues to apply the Association of Financial Mutuals (AFM) corporate governance code. The code sets an expectation that members apply all the six principles and explain how they have interpreted and approached them.

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Principle One: Purpose and Leadership

An effective board promotes the purposes of an organisation and ensures that its values, strategy and culture align with its purpose.

Our purpose is to help the UK be happier and healthier through a range of products that are designed to meet our customers' needs. Helping businesses and individuals achieve more, whilst supporting the work of our community and the amazing NHS.

Through the leadership of the board a clear vision for the Groups purpose and values is articulated, which will underpin and define the strategy and culture of the organisation. This is embedded at every level of management.

- **You're special to us**
We strive to go above and beyond for our customers, showing integrity always.
- **We're stronger together**
We believe a collaborative approach is always better and work closely with our customers to provide for their needs.
- **We embrace change**
We're always looking for new, innovative solutions for our customers and more efficient ways of working.
- **We keep it simple**
We believe in transparency and clarity in our work and communications

Policies and protocols are in place to support the execution of the group's purpose and values across the organisation, which drives overall engagement with our policyholders, our customers, our employees and our community across the operating businesses.

Group wide initiatives such as My Giving and My Journey are examples of how purpose is brought to life and benchmarked.

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Principle two: Board composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having enough capacity to make a valuable contribution. The size of a board will be guided by the scale and complexity of the organisation.

Jeremy Grace was elected to the Board in October 2020.

The group operates through clear board protocols and governance processes. These are set out in its terms of reference and standing items for the board and its committee. This allows for both independent challenge and transparency in decision making.

The board is supported through the executive and senior management team and its internal governance protocols. Accountability is driven through routine evaluations of the board and its composition is balanced between executive and independent non-executive directors.

Board attendance

The table below sets out details of all directors who have served during the year and their membership of board committees. This includes details of each member's attendance at the board meetings held in 2020. There is a separate attendance statements in respect of the nomination, remuneration and audit and risk committees within the strategic report.

| Director | Role (I = Independent) | Committee (C= current chair) | Attendance record |
|---|----------------------------|---------------------------------|-------------------|
| James Knight | Chair | | 8/8 |
| Anthony Burns | Commercial director | | 8/8 |
| Sajida Carr | Non-executive director (I) | Remuneration (C) | 8/8 |
| Jeremy Grace (Appointed October 2020) | Non-executive director (I) | Audit and Risk (C) | 2/2 |
| Jezz Gobran (Stepped down November 2020) | Non-executive director (I) | Audit & Risk Nominations | 8/8 |
| Matt Goulding (Stepped down February 2020) | Non-executive director (I) | Remuneration | 1/1 |
| Milkinder Jaspal | Non-executive director (I) | Nominations (C) | 8/8 |
| Donald McIntosh (Stepped down February 2020) | Non-executive director | Audit and Risk Nominations | 1/1 |
| Kevin Rogers | Chief Executive Officer | | 8/8 |

PAYCARE**STRATEGIC REPORT TO THE MEMBERS OF PAYCARE****Principle three: Director responsibilities**

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.

Board appointments have been made with care and to ensure that its membership includes the right and appropriate levels of skills and experience to address the challenges that the business currently faces along with those of the future.

The Nominations committee is charged principally with:

- Conducting an annual review of the Board's composition and consideration of any proposed changes for proposal to the Board;
- The formation of a strategic succession and replacement plan for the Board; and
- Leading the process for identifying and making recommendations to the Board regarding candidates for appointment as directors.

The committee consists of a Chair (Milkinder Jaspal) and two non-executive directors. The committee is supported by Executive directors and senior management when required.

The table below sets out details of all directors who have served during the year. This includes details of each member's attendance at the committee meetings held in 2020.

| Director | Role | Attendance record |
|---|----------------------------|-------------------|
| Milkinder Jaspal | Chair (I) | 3/3 |
| Jezz Gobran (Stepped down October 2020) | Non-executive director (I) | 3/3 |
| James Knight | Non-executive director (I) | 3/3 |

The Company Secretary ensures that the board has been given enough infrastructure to allow them to undertake their work with due care, which is aligned to achieving the group's long-term success and vision.

The board continues to be focused on improving its operational governance to ensure that the group's corporate purpose and strategy remains at the centre of its decision-making protocols.

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STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Principle four: Opportunity and risk

A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

Through clear definition of the group's corporate purpose and values, the board's decisions are focused on promoting and delivering long term value; at the heart of which are its policyholders, customers, employees and community. This is embedded across the group's key operating businesses and strategic decision-making areas.

Principal risks have been identified across the group and at the operating business level with robust reporting to the board on the plans to address and mitigate these. These are articulated further in this annual report and are set out in the organisations Own Risk Solvency Assessment (ORSA).

The Audit and Risk Committee is charged principally with:

- Monitoring the integrity of the financial statements;
- Review of the financial statements and their recommendation to the Board for approval;
- Review of the Group's internal controls and risk management systems;
- Major capital expenditure reviews;
- Review of the internal and external audit plan;

During 2020 the responsibilities of the Audit and Risk Committee were taken back to the full Paycare Board pending the successful appointment of a Chair of the Committee.

Paycare were delighted to welcome Jeremy Grace to the Board in October 2020 and he was subsequently approved by our regulators to take up the position of Chair of Audit and Risk in November.

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

Principle four: Opportunity and risk (*continued*)

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

Market risk

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

Credit risk

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

Liquidity risk

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

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

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Principle four: Opportunity and risk (*continued*)

Capital management

The objective of the group in managing its capital is to ensure that it will be able to continue as a going concern and comply with the regulators' capital requirements of the markets in which the group operates. The group was in compliance with capital requirements imposed by regulators throughout the financial year.

Insurance risk management

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

Principle five: Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, considering pay and conditions elsewhere in the organisation.

The group's remuneration policy is set out and monitored by its remuneration committee with clear objectives to incentivise management based on the long-term success of its strategic goals and business plans.

Succession planning and talent retention are key focus areas for the group and its operating business levels.

The Remuneration committee is charged principally with:

- Reviewing the ongoing appropriateness, relevance and efficiency of remuneration policy and practice;
- Reviewing the design of performance-related pay schemes; and
- Reviewing and approving the total annual payments made under such schemes

The committee consists of a Chair (Sajida Carr) and two non-executive directors. The committee is supported by Executive directors and senior management when required.

PAYCARE**STRATEGIC REPORT TO THE MEMBERS OF PAYCARE****Principle five: Remuneration (*continued*)**

The table below sets out details of all directors who have served during the year. This includes details of each member's attendance at the committee meetings held in 2020.

| Director | Role | Attendance record |
|------------------|----------------------------|-------------------|
| Sajida Carr | Chair (I) | 3/3 |
| James Knight | Non-executive director (I) | 3/3 |
| Jeremy Grace | Non-executive director (I) | 1/1 |
| Milkindar Jaspal | Non-executive director (I) | 3/3 |

Principle six: Stakeholder relationships and engagement

Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Through the group's defined purpose, underpinned by its values, stakeholder engagement is embedded at all levels of the organisation with clear direction and endorsement from the board and senior management across each of the operating businesses.

The group promotes an ongoing cycle of engagement with its stakeholders.

Regulation

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

Regulation for healthcare cash benefit plans has continued to increase. In order to maintain compliance, during 2020 directors and managers took part in a range of training activities covering regulatory issues and have continued to review and enhance internal systems and procedures.

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

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

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

COVID-19

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and prohibition of gatherings and events. The spread of COVID-19 resulted in a sharp economic downturn in markets in which Paycare operates and the global economy more widely, as well as causing increased volatility and declines in financial markets

As an insurance business Paycare was impacted by the COVID-19 pandemic through its insurance products, asset holdings as well as ongoing difficult conditions in the UK and global financial markets and the economy generally. General insurance products were impacted as a result of disruption to practitioners, policyholders and corporate customers. This led in the short term to lower claims, and we saw evidence of this particularly in Optical and Dental claims.

Paycare kept its underwriting, pricing and strategy under review at this time. The company was also exposed to market and credit risk associated with the significant volatility in financial markets arising from COVID-19 and saw significant declines in the value of investments in the early days of the lockdown. Investment values recovered through the year to claw back the early falls. The company's balance sheet exposure was continually reviewed and actions taken to further reduce the sensitivity to economic shocks. Paycare continues to maintain strong solvency levels and expects to continue to meet its capital requirements.

Since the onset of the pandemic the business has remained operational, with key activities such as benefit payments and transaction processing being maintained, IT systems remaining operational, and employees being supported to ensure that that we are there to support our customers when they need us most.

System of governance

The Company's overarching risk management and internal control system is actively responding to the challenges of the COVID-19 outbreak and remains intact. Work remains ongoing in capturing some aspects of change to the control environment to make allowances for the operational constraints. Any moderations are being closely monitored and subject to appropriate governance. Government travel restrictions and social distancing measures have required us to implement contingency plans and changes to some of our operational processes to ensure continued uninterrupted service to our customers, and to protect staff, while minimising the impact on the quality of service provided. These plans involve almost all of our staff being able to work from home, including customer service staff. The changes to operational processes that have been implemented have been designed to ensure customer service, data protection and staff well-being risks are at a level accepted by The Board.

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Capital management

The capital of the business is monitored on an ongoing basis and continues to maintain strong solvency levels and expects to continue to meet its Solvency Capital Requirements. The Company's balance sheet exposure and solvency position has been reviewed and actions are being taken to protect the solvency position and further reduce the sensitivity to economic shocks.

On behalf of the board


J L Knight
Chairman
Date: 06 May 2021

PAYCARE

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

The directors have pleasure in submitting their fifty seventh annual report together with the audited financial statements for the year ended 31st December 2020.

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

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

K-A Rogers
A I Burns
J L Knight
J Gobran (resigned 19 November 2020)
M Goulding (resigned 12 February 2020)
D McIntosh (resigned 13 February 2020)
S Carr
M S Jaspal
J C H Grace (appointed 22 October 2020)

Statement of directors' responsibilities

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

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

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

PAYCARE

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

Statement of directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' and Officers' Liability

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

Vice President

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

Constitution

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

Charitable and political donations

During the year charitable donations of £17,411 (2019 - £18,459) were made by the group. Paycare is very much part of our local community. We look to support charitable causes within our community whenever we are able too.

We continue to extend our charitable giving to the Rachael Heyhoe-Flint Accessible lounge at Wolves. Our support of this fantastic facility through the Wolves Community Trust will now extend to 25 years.

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

The group makes no political donations.

PAYCARE

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

Property

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

Investments

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

Employees

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

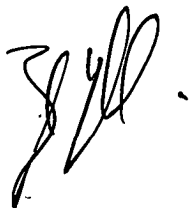
People really are at the heart of everything we do as a business. We are committed to continue to invest in our people.

Statement of disclosure to auditors

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

On behalf of the board

J L Knight
Chairman
Date: 06 May 2021



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

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

We have audited the financial statements of Paycare (the 'parent' company) and its subsidiary (the 'group') for the year ended 31 December 2020, which comprise the Consolidated Statement of Income and Retained Earnings (the Technical Account and the Non-Technical Account), the Consolidated and Company Note of Historical Cost Surpluses and Deficits, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard in the UK and the Republic of Ireland" and FRS 103 "Insurance Contracts".

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006;

Basis of opinion

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

PAYCARE

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE

Other information

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

PAYCARE

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 13 and 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.



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

13 MAY 2021
.....

34 High Street
Aldridge
Walsall
WS9 8LZ

PAYCARE
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED 31ST DECEMBER 2020

| | <u>Note</u> | 2020 £ | 2019 £ |
|---|-------------|-------------|-------------|
| Technical Account – General Business | | | |
| Earned premiums | | | |
| Gross premiums written | 3 | 6,396,736 | 6,611,369 |
| Allocated investment gain transferred from the non-technical account | | 16,592 | 157,051 |
| Claims incurred | | | |
| Claims paid gross | | (3,898,802) | (5,152,116) |
| Change in the provision for claims | | 52,000 | (27,946) |
| | | <hr/> | <hr/> |
| | | 2,566,526 | 1,588,358 |
| Net operating expenses | 4 | (1,774,452) | (1,658,048) |
| Balance on technical account for general business | | <hr/> | <hr/> |
| | | 792,074 | (69,690) |
| | | <hr/> | <hr/> |

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

PAYCARE**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS - CONTINUED
YEAR ENDED 31ST DECEMBER 2020**

| | <u>Note</u> | 2020 £ | 2019 £ |
|---|-------------|-----------|-----------|
| Non-Technical Account | | | |
| Balance on technical account for general business | | 792,074 | (69,690) |
| Investment income | 8 | 189,382 | 207,504 |
| Unrealised gains/(losses) on investments | | (136,071) | 181,094 |
| Investment expenses and charges | | (11,341) | - |
| Allocated investment gain transferred to the general business technical account | | (16,592) | (157,051) |
| Other income | | 12,705 | 2,625 |
| Other charges | 9 | (17,411) | (18,459) |
| | | <hr/> | <hr/> |
| Surplus on ordinary activities before tax | | 812,746 | 146,023 |
| Tax on surplus on ordinary activities | 10 | 24,000 | (21,461) |
| | | <hr/> | <hr/> |
| Surplus for the financial year transferred to reserves | | 836,746 | 124,562 |
| | | <hr/> | <hr/> |

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

Statement of Comprehensive Income

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

PAYCARE**NOTES OF HISTORICAL COST SURPLUSES AND DEFICITS
YEAR ENDED 31ST DECEMBER 2020**

| Group | | | |
|---|-------------|-----------|-----------|
| | <u>Note</u> | 2020 £ | 2019 £ |
| Surplus on ordinary activities before tax | | 812,746 | 146,023 |
| Unrealised (gains)/losses recognised in the year | 21 | 136,071 | (181,094) |
| Historical cost surplus/(deficit) on ordinary activities before tax | | 948,817 | (35,071) |
| Tax (credit)/charge for the year | | (24,000) | 21,461 |
| Historical cost surplus/(deficit) for the year retained after tax | | 972,817 | (56,532) |
| Company | | | |
| | <u>Note</u> | 2020 £ | 2019 £ |
| Surplus on ordinary activities before tax | | 892,290 | 158,922 |
| Unrealised (gains)/losses recognised in the year | 21 | 136,071 | (181,094) |
| Historical cost surplus/(deficit) on ordinary activities before tax | | 1,028,361 | (22,172) |
| Tax (credit)/charge for the year | | (24,000) | 21,461 |
| Historical cost surplus/(deficit) for the year retained after tax | | 1,052,361 | (43,633) |

PAYCARE**STATEMENTS OF CHANGES IN EQUITY
YEAR ENDED 31ST DECEMBER 2020****Group**

| | Realised £ | Unrealised £ | Total £ |
|--------------------------------|---------------|-----------------|------------|
| Balance at 1st January 2020 | 5,830,245 | 80,812 | 5,911,057 |
| Surplus/(deficit) for the year | 972,817 | (136,071) | 836,746 |
| Deferred tax movement | (24,000) | 24,000 | - |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31st December 2020 | 6,779,062 | (31,259) | 6,747,803 |
| | <hr/> | <hr/> | <hr/> |

Company

| | Realised £ | Unrealised £ | Total £ |
|--------------------------------|---------------|-----------------|------------|
| Balance at 1st January 2020 | 5,843,144 | 80,812 | 5,923,956 |
| Surplus/(deficit) for the year | 1,052,361 | (136,071) | 916,290 |
| Deferred tax movement | (24,000) | 24,000 | - |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31st December 2020 | 6,871,505 | (31,259) | 6,840,246 |
| | <hr/> | <hr/> | <hr/> |

PAYCARE**CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER 2020**

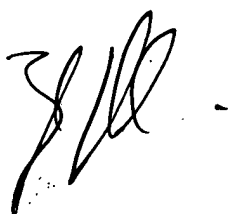
| | | 2020 | | 2019 | |
|--|-------------|-------------------|-------------------|-------------------|-------------------|
| | <u>Note</u> | <u>£</u> | <u>£</u> | <u>£</u> | <u>£</u> |
| ASSETS | | | | | |
| Investments | | | | | |
| Investments in equity instruments | 11 | | 4,519,680 | | 4,655,751 |
| Investment property | 11 | | 266,420 | | 266,420 |
| | | | <u> </u> | | <u> </u> |
| | | | 4,786,100 | | 4,922,171 |
| Debtors | | | | | |
| Debtors arising out of direct insurance operations – policyholders | | 251,005 | | 311,955 | |
| | | <u> </u> | | <u> </u> | |
| | | | 251,005 | | 311,955 |
| Other Assets | | | | | |
| Tangible fixed assets | 12 | 815,616 | | 830,823 | |
| Bank and cash | | 1,462,335 | | 534,811 | |
| | | <u> </u> | | <u> </u> | |
| | | | 2,277,951 | | 1,365,634 |
| Prepayments, accrued income and other debtors | | | | | |
| | | | 85,870 | | 99,693 |
| | | | <u> </u> | | <u> </u> |
| | | | 7,400,926 | | 6,699,453 |
| | | | <u> </u> | | <u> </u> |

PAYCARE**CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER 2020**

| | <u>Note</u> | 2020 £ | 2019 £ |
|-------------------------------------|-------------|------------------|------------------|
| LIABILITIES | | | |
| Reserves | | 6,747,803 | 5,911,057 |
| Technical provisions | | | |
| Provisions for claims outstanding | | 177,844 | 125,844 |
| Provisions for liabilities | | | |
| FSCS Levy | 13 | 65,087 | 66,938 |
| Deferred taxation | 14 | (7,000) | 17,000 |
| Creditors | 15 | 212,884 | 327,290 |
| Accruals and deferred income | | 204,308 | 251,324 |
| | | <u>653,123</u> | <u>788,396</u> |
| | | <u>7,400,926</u> | <u>6,699,453</u> |

Approved and authorised for issue by the Board of Directors on 06 May 2021.

J L Knight – Chairman




K A Rogers – Chief Executive

Company Registration No: 00820791

PAYCARE**COMPANY BALANCE SHEET
AT 31ST DECEMBER 2020**

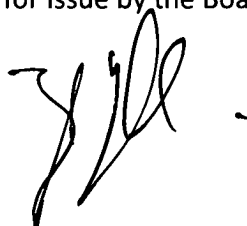
| | | 2020 | | 2019 | |
|--|-------------|-----------|-----------|---------|-----------|
| | <u>Note</u> | £ | £ | £ | £ |
| ASSETS | | | | | |
| Investments | | | | | |
| Investments in equity instruments | 11 | | 4,519,680 | | 4,655,751 |
| Investment property | 11 | | 266,420 | | 266,420 |
| Investment in subsidiary | 11 | | 100 | | 100 |
| | | | <hr/> | | <hr/> |
| | | | 4,786,200 | | 4,922,271 |
| Debtors | | | | | |
| Debtors arising out of direct insurance operations – policyholders | | 251,005 | | 311,955 | |
| | | <hr/> | | <hr/> | |
| | | | 251,005 | | 311,955 |
| Other Assets | | | | | |
| Tangible fixed assets | 12 | 815,616 | | 830,823 | |
| Bank and cash | | 1,459,684 | | 534,811 | |
| | | <hr/> | | <hr/> | |
| | | | 2,275,300 | | 1,365,634 |
| Prepayments, accrued income and other debtors | | | | | |
| | | | 173,744 | | 109,387 |
| | | | <hr/> | | <hr/> |
| | | | 7,486,249 | | 6,709,247 |
| | | | <hr/> | | <hr/> |

PAYCARE**COMPANY BALANCE SHEET
AT 31ST DECEMBER 2020**

| | <u>Note</u> | 2020 £ | 2019 £ |
|-------------------------------------|-------------|------------------|------------------|
| LIABILITIES | | | |
| Reserves | | 6,840,246 | 5,923,956 |
| Technical provisions | | | |
| Provisions for claims outstanding | | 177,844 | 125,844 |
| Provisions for liabilities | | | |
| FSCS Levy | 13 | 65,087 | 66,938 |
| Deferred taxation | 14 | (7,000) | 17,000 |
| Creditors | 15 | 212,884 | 327,290 |
| Accruals and deferred income | | 197,188 | 248,219 |
| | | <u>646,003</u> | <u>785,291</u> |
| | | <u>7,486,249</u> | <u>6,709,247</u> |

Approved and authorised for issue by the Board of Directors on 06 May 2021.

J L Knight – Chairman




K A Rogers – Chief Executive

Company Registration No: 00820791

PAYCARE**CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31ST DECEMBER 2020**

| | <u>Note</u> | 2020 £ | 2019 £ |
|---|-------------|-------------------|-------------------|
| Net cash inflow from operating activities | 21 | 1,006,677 | 164,130 |
| Taxation | | | |
| Taxation paid | | (2,029) | (5,548) |
| | | <u> </u> | <u> </u> |
| Net cash generated from operating activities | | 1,004,648 | 158,582 |
| Cash flow from investing activities | | | |
| Purchase of tangible fixed assets | | (78,169) | (64,562) |
| | | <u> </u> | <u> </u> |
| Net cash used in investing activities | | (78,169) | (64,562) |
| | | <u> </u> | <u> </u> |
| Net increase in cash at bank and in hand | | 926,479 | 94,020 |
| Cash and cash equivalents at the beginning of the year | | 525,371 | 431,351 |
| | | <u> </u> | <u> </u> |
| Cash and cash equivalents at the end of the year | | 1,451,850 | 525,371 |
| | | <u> </u> | <u> </u> |
| Cash and cash equivalents consist of: | | | |
| Bank and cash | | 1,462,335 | 534,811 |
| Claims bank account | | (10,485) | (9,440) |
| | | <u> </u> | <u> </u> |
| Cash and cash equivalents | | 1,451,850 | 525,371 |
| | | <u> </u> | <u> </u> |

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020**

1. Accounting Policies**Company information**

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

(a) Basis of preparation

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

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

The group financial statements consolidate the financial statements of Paycare and all its subsidiary undertakings for the year ended 31 December 2019 using the acquisition method of accounting. The results of the subsidiary undertakings are included from the date of acquisition.

The company has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of income and retained earnings in these financial statements. The company's result for the year was £916,290 surplus (2019 - £137,461 surplus).

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

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

(b) Going concern

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

PAYCARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020

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

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

(d) Premiums

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

(e) Claims

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

(f) Taxation

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

(g) Tangible fixed assets and depreciation

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

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

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020**

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

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

(h) Investment properties

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

(i) Investment in subsidiary

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

(j) Leases

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

(k) Pension costs

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

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020**

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

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

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

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

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

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

(m) Other financial assets

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

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

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

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

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020**

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

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

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

De-recognition of financial assets

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

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020**

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

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

Other financial liabilities

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

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

De-recognition of financial liabilities

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

(o) Deferred taxation

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

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

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

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****2. Critical accounting estimates and judgements**

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

Financial Services Compensation Scheme Levy

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

Provisions for claims outstanding

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

3. Gross premiums written

| | 2020 £ | 2019 £ |
|--|-----------|-----------|
| Premiums received | 7,187,948 | 7,422,835 |
| Less personal accident insurance premium | (6,000) | (6,000) |
| Less insurance premium tax | (785,212) | (805,466) |
| | <hr/> | <hr/> |
| | 6,396,736 | 6,611,369 |
| | <hr/> | <hr/> |

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****4. Net operating expenses**

| | 2020 £ | 2019 £ |
|----------------------|------------------|------------------|
| Staff costs (note 6) | 1,142,304 | 951,747 |
| Sales and marketing | 164,202 | 186,864 |
| Administration costs | 467,946 | 519,437 |
| | <u>1,774,452</u> | <u>1,658,048</u> |

5. Net operating expenses include

| | 2020 £ | 2019 £ |
|--|----------------|----------------|
| Depreciation of owned assets | 93,376 | 105,317 |
| Fees payable to the company's auditor for the audit of the company's financial statements | 20,718 | 20,220 |
| Fees payable to the company's auditor for the audit of the subsidiary's financial statements | 6,000 | 3,000 |
| Operating lease rentals | 3,484 | 3,660 |
| | <u>123,578</u> | <u>132,207</u> |

6. Staff costs

| | 2020 £ | 2019 £ |
|-----------------------|------------------|----------------|
| Wages and salaries | 905,840 | 778,669 |
| Social security costs | 121,315 | 78,553 |
| Pension costs | 115,149 | 94,525 |
| | <u>1,142,304</u> | <u>951,747</u> |

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****6. Staff costs (continued)**

Average number of persons employed:

| | 2020 <u>No.</u> | 2019 <u>No.</u> |
|-------------------------------|--------------------|--------------------|
| Management and administration | 26 | 22 |
| Sales and marketing | 7 | 7 |
| | <u>33</u> | <u>29</u> |
| Full-time equivalent | 29 | 23 |
| | <u>4</u> | <u>6</u> |
| Non-executive directors | | |

7. Directors' remuneration

| | 2020 <u>£</u> | 2019 <u>£</u> |
|--|------------------|------------------|
| Emoluments including benefits in kind | 186,575 | 191,176 |
| Company contributions to defined contribution pension scheme | 20,287 | 19,696 |
| | <u>206,862</u> | <u>210,872</u> |

At 31st December 2020 there are 2 directors to whom retirement benefits are accruing (2019: two).

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****7. Directors' remuneration (continued)**

Remuneration disclosed above include the following paid to the highest paid director:

| | 2020 £ | 2019 £ |
|--|---------------|----------------|
| Emoluments including benefits in kind | 84,872 | 89,785 |
| Company contributions to defined contribution pension scheme | 11,458 | 11,124 |
| | <u>96,330</u> | <u>100,938</u> |

Directors' emoluments - key management personnel

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

| | 2020 £ | 2019 £ |
|---------------------------------------|---------------|---------------|
| Non-executive directors' remuneration | <u>17,078</u> | <u>26,311</u> |

8. Investment income

| | 2020 £ | 2019 £ |
|--|----------------|----------------|
| Income from freehold land and buildings | | |
| Rent received | 25,600 | 25,335 |
| Other financial investments | | |
| Shares | 161,133 | 180,631 |
| Interest on cash deposits | 2,649 | 1,538 |
| | <u>189,382</u> | <u>207,504</u> |

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****9. Other charges**

| | 2020 £ | 2019 £ |
|----------------------|---------------|---------------|
| Charitable donations | 17,411 | 18,459 |
| | <u>17,411</u> | <u>18,459</u> |

10. Tax on surplus on ordinary activities

| | 2020 £ | 2019 £ |
|---|-----------------|---------------|
| Corporation tax due at 19% (2019 – 19%) | | |
| UK corporation tax on gains and investment income | - | 4,461 |
| | <u>-</u> | <u>4,461</u> |
| Total current tax | - | 4,461 |
| Deferred tax | | |
| Deferred tax (credit)/charge | (24,000) | 17,000 |
| | <u>(24,000)</u> | <u>17,000</u> |
| Tax on surplus on ordinary activities | <u>(24,000)</u> | <u>21,461</u> |

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****10. Tax on surplus on ordinary activities (continued)**

| | 2020 £ | 2019 £ |
|---|-------------------|-------------------|
| Factors affecting the tax (credit)/charge for the year | | |
| Surplus on ordinary activities before taxation | 812,746 | 146,023 |
| | <u> </u> | <u> </u> |
| Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2019 – 19%) | 154,422 | 27,744 |
| Mutual trading profits not tax deductible | (164,869) | 40,131 |
| | <u> </u> | <u> </u> |
| | (10,447) | 67,875 |
| Effects of: | | |
| Dividends received not taxable | (26,475) | (29,006) |
| Movement in market value of equities | 25,853 | (34,408) |
| Deferred tax | (24,000) | 17,000 |
| Group losses not utilised and carried forward | 11,069 | - |
| | <u> </u> | <u> </u> |
| Tax (credit)/charge for the year | (24,000) | 21,461 |
| | <u> </u> | <u> </u> |

At 31 December 2020, the group has tax losses of £58,256 (2019 - £Nil) available to carry forward against future taxable profits.

At 31 December 2020, the group has not provided for a deferred tax asset in respect of the above tax losses on the basis that the directors consider unlikely it will be recovered against taxable profits in the foreseeable future.

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****11. Investments****Investment property – Group and company**£**Fair value and net book value**

At 1st January 2020 and 31st December 2020

266,420

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

Investments in equity instruments – Group and company

| | Market Value | | Cost | |
|--------------------|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| | <u>£</u> | <u>£</u> | <u>£</u> | <u>£</u> |
| Equity instruments | 4,519,680 | 4,655,751 | 4,557,787 | 4,557,787 |
| | <u>4,519,680</u> | <u>4,655,751</u> | <u>4,557,787</u> | <u>4,557,787</u> |

Investment in subsidiary – Company

| | 2020 | 2019 |
|-------------------------|----------|----------|
| | <u>£</u> | <u>£</u> |
| Cost and net book value | 100 | 100 |

The company holds a 100% interest in the ordinary share capital of Paycare Wellbeing Ltd, a company incorporated and registered in the United Kingdom. Paycare Wellbeing Ltd's principal activity is the provision of health and wellbeing services and its registered office is the same as Paycare.

PAYCARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020
12. Tangible fixed assets – Group and company

| | Freehold Property £ | Furniture & Fittings £ | Computer Equipment £ | Total £ |
|-----------------------|---------------------------|------------------------------|----------------------------|------------|
| Cost | | | | |
| At 1st January 2020 | 524,248 | 163,930 | 832,613 | 1,520,791 |
| Additions | - | 4,804 | 73,365 | 78,169 |
| Disposals | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December 2020 | 524,248 | 168,734 | 905,978 | 1,598,960 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation | | | | |
| At 1st January 2020 | 118,827 | 140,874 | 430,267 | 689,968 |
| Charge for the year | 10,101 | 11,278 | 71,997 | 93,376 |
| Disposals | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December 2020 | 128,928 | 152,152 | 502,264 | 783,344 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 31st December 2020 | 395,320 | 16,582 | 403,714 | 815,616 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December 2019 | 405,421 | 23,056 | 402,346 | 830,823 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****13. Provisions for liabilities – FSCS Levy – Group and company**

| | 2020 £ | 2019 £ |
|---|-----------|-----------|
| At 1st January | 66,938 | 66,215 |
| Profit and loss account (credit)/charge | (1,851) | 723 |
| | <hr/> | <hr/> |
| At 31st December | 65,087 | 66,938 |
| | <hr/> | <hr/> |

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

14. Provisions for liabilities – Deferred taxation – Group and company

| | 2020 £ | 2019 £ |
|------------------------------|-----------|-----------|
| At 1st January | 17,000 | - |
| Deferred tax (credit)/charge | (24,000) | 17,000 |
| | <hr/> | <hr/> |
| At 31st December | (7,000) | 17,000 |
| | <hr/> | <hr/> |

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****15. Creditors****Group and company**

| | 2020 | 2019 |
|------------------------------|----------------|----------------|
| | £ | £ |
| Claims bank account | 10,485 | 9,440 |
| Corporation tax | (6,632) | (4,603) |
| Taxation and social security | 191,423 | 248,718 |
| Other creditors | 17,608 | 73,735 |
| | <u>212,884</u> | <u>327,290</u> |

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

16. Financial instruments**Group**

| | 2020 | 2019 |
|--|------------------|------------------|
| | £ | £ |
| Financial assets | | |
| <i>Measured at fair value</i> | | |
| Investments in equity instruments | 4,519,680 | 4,655,751 |
| | <u>4,519,680</u> | <u>4,655,751</u> |
| <i>Measured at amortised cost</i> | | |
| Debtors arising out of direct insurance operations | 251,005 | 311,955 |
| Prepayments, accrued income and other debtors | 85,870 | 99,693 |
| | <u>336,875</u> | <u>411,648</u> |
| <i>Measured at cost</i> | | |
| Cash and cash equivalents | 1,462,335 | 534,811 |

PAYCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020
16. Financial instruments (continued)

| | 2020 | 2019 |
|-----------------------------------|-------------------|-------------------|
| | £ | £ |
| Financial liabilities | | |
| <i>Measured at cost</i> | | |
| Claims bank account | 10,485 | 9,440 |
| | <u> </u> | <u> </u> |
| <i>Measured at amortised cost</i> | | |
| Other creditors | 17,608 | 73,735 |
| Taxation and social security | 191,423 | 248,718 |
| | <u> </u> | <u> </u> |
| | 209,031 | 322,453 |
| | <u> </u> | <u> </u> |

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

Company

| | 2020 | 2019 |
|--|-------------------|-------------------|
| | £ | £ |
| Financial assets | | |
| <i>Measured at fair value</i> | | |
| Investments in equity instruments | 4,519,680 | 4,655,751 |
| | <u> </u> | <u> </u> |
| | 4,519,680 | 4,655,751 |
| | <u> </u> | <u> </u> |
| <i>Measured at amortised cost</i> | | |
| Debtors arising out of direct insurance operations | 251,005 | 311,955 |
| Prepayments, accrued income and other debtors | 173,744 | 109,387 |
| | <u> </u> | <u> </u> |
| | 424,749 | 421,342 |
| | <u> </u> | <u> </u> |
| <i>Measured at cost</i> | | |
| Cash and cash equivalents | 1,459,684 | 534,811 |
| | <u> </u> | <u> </u> |

Other debtors include amounts due from group undertakings of £89,248 (2019 - £12,319).

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****16. Financial instruments (continued)**

| | 2020 | 2019 |
|-----------------------------------|-------------------|-------------------|
| | £ | £ |
| Financial liabilities | | |
| <i>Measured at cost</i> | | |
| Claims bank account | 10,485 | 9,440 |
| | <u> </u> | <u> </u> |
| <i>Measured at amortised cost</i> | | |
| Other creditors | 17,608 | 73,735 |
| Taxation and social security | 191,423 | 248,718 |
| | <u> </u> | <u> </u> |
| | 209,031 | 322,453 |
| | <u> </u> | <u> </u> |

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

17. Risk arising from insurance contracts

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

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

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

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

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

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020**

17. Risk arising from insurance contracts (continued)**Abnormally high claims rates**

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

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

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

Based on the 2020 claims rate, for every percentage point increase in the claims rate, the group's result before tax for 2020 and balance sheet reserves at 31 December 2020 would reduce by £63,967 (2019 - £66,114).

Sudden loss of major customers and policyholders

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

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

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

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

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

Based on policyholder numbers at 31 December 2020 and using the claims rate for 2020 as above, for every percentage point decrease in policyholder numbers the group's result before tax for 2020 and balance sheet reserves at 31 December 2020 would reduce by £28,297 (2019 - £13,226).

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****18. Operating lease commitments****Lessee**

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

| | 2020 £ | 2019 £ |
|-----------------|-------------------|-------------------|
| Within one year | 1,129 | 1,220 |
| | <u> </u> | <u> </u> |

19. Pension costs

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

The pension cost charge represents contributions payable for the year by the company to the scheme and amounted to £115,149 (2019 – £94,525). At 31st December 2020, there were £Nil contributions outstanding (2019 - £Nil).

20. Related party transactions

The company has taken advantage of the exemption in FRS 102 not to disclose details of transactions with Paycare Wellbeing Ltd, the company's wholly owned subsidiary.

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

During the year the company was charged £Nil (2019 - £16,260) by FBC Manby Bowdler LLP and the company charged rent of £17,500 (2019 - £17,500) to FBC Manby Bowdler LLP. At 31 December 2020 the company was owed £Nil (2019 - £Nil) from, and owed £Nil (2019 - £Nil) to, FBC Manby Bowdler LLP. All transactions were undertaken on normal commercial terms and on an arm's length basis.

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****21. Reconciliation of consolidated surplus on ordinary activities before tax to net cash inflow from operating activities**

| | 2020 | 2019 |
|--|------------------|----------------|
| | £ | £ |
| Surplus on ordinary activities before tax | 812,746 | 146,023 |
| Depreciation | 93,376 | 105,317 |
| Unrealised losses/(gains) on investments | 136,071 | (181,094) |
| Decrease in insurance debtors | 59,576 | 58,450 |
| Decrease in other debtors and prepayments | 15,197 | 175 |
| (Decrease)/increase in creditors and accruals | (160,438) | 62,482 |
| (Decrease)/increase in FSCS levy | (1,851) | 723 |
| Increase/(decrease) in provisions for claims | 52,000 | (27,946) |
| | <hr/> | <hr/> |
| Net cash inflow from operating activities | 1,006,677 | 164,130 |
| | <hr/> | <hr/> |

PAYCARE**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2020****22. Analysis of changes in net funds and investments - Group**

| | At 01.01.20 £ | Cash flows £ | Movements in market value £ | Realised gains/ (losses) £ | At 31.12.20 £ |
|------------------------------|---------------------|--------------------|--------------------------------------|-------------------------------------|---------------------|
| Bank and cash | 534,811 | 927,524 | - | - | 1,462,335 |
| Claims bank account | (9,440) | (1,045) | - | - | (10,485) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total bank and cash | 525,371 | 926,479 | - | - | 1,451,850 |
| Equity instruments | 4,655,751 | - | (136,071) | - | 4,519,680 |
| Debt securities | - | - | - | - | - |
| Investment property | 266,420 | - | - | - | 266,420 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Investments | 4,922,171 | - | (136,071) | - | 4,786,100 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net funds and investments | 5,447,542 | 926,479 | (136,071) | - | 6,237,950 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |