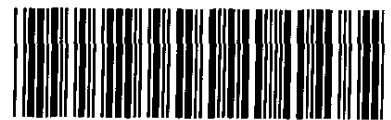


Parent Report & Accounts for:
WPA INSURANCE SERVICES LIMITED

(Company Number: 02593389)

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THURSDAY

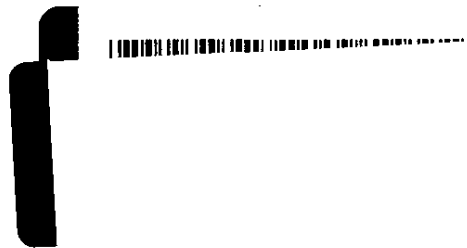


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REPORT & ACCOUNTS

Western Provident Association Limited



2017



REPORT & ACCOUNTS

for the year ended 31 December 2017

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2017 has been a successful year for every facet of the Association. We have no interest in growth for growth's sake: for many businesses, this is all too often achieved by mortgaging the future. So I am pleased to report a steady and continuing expansion in our customer numbers as a direct result of our dedication to serving our customers as we would hope to be treated ourselves. During 2017 we maintained our excellent record of customer service levels with not a single complaint adjudicated against us by the Financial Ombudsman Service (FOS). There are very few organisations with this depth of performance and reliability.

The regulatory regime has brought welcome transparency to both the financial standing and conduct of Authorised and Regulated firms. We have for many years maintained a clear focus on a conservative approach to insurance risk, that has underpinned our strong solvency, maintaining us in the top decile of Authorised Insurers. Without shareholders, we have no immediate recourse to external capital and the strength of our asset base recognises the absolute duty that we hold to our customers to sustain our underwriting commitments.

Despite the intensity of the regulatory focus on processes, we have never lost sight of the purpose of our undertaking whereby we support and fund our customers' access to the full range of their healthcare needs, frequently in times of anxiety. This is not a mechanistic process; it relies in every case, upon the skill, training and empathy of our people. Again, this is clear to see from the FOS outcomes. But the world of medicine is in a period of unprecedented change, with remarkable advances in surgery, and notably, pharmaceuticals. We are on the cusp of staggering advances in genetic medicine that hold the real promise of cure for many profound conditions.

In turn, our key task - the authorisation of claims - becomes ever more complex. Indeed, it is foreseeable that every member of staff in every organisation that is involved in the management of healthcare claims will, in the years ahead, need to be both a world-class physician and administrator.

We have anticipated these developments and as a result have built intelligent Insuretech systems, in which we have embedded our clinical and product expertise. We now have some of the most advanced Insuretech systems anywhere in our industry. It is a compelling vindication of both our foresight and commitment that we were recognised with seven major industry awards for our technological and customer service achievements during 2017.

Our Insuretech operating system, DELOS, has been built in-house but with a global perspective. In turn, this investment now provides us with both highly streamlined processes - minimising interruptions and contact points in patients' treatment pathways - at the same time as unlocking the needs for flexibility in this on-line era. The introduction of Precision Corporate Healthcare for the SME marketplace - paper free, with benefits configured by the employer, tailored uniquely to every member of staff in order to match individual employment policies - is the new future. For many established organisations, this is the relentless march of disruption, of which we are proud to be in the vanguard.



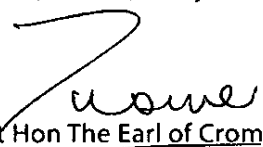
Training is key to optimising the outcomes for our customers and for enhancing our own already strong levels of productivity. In this context, we have also encouraged and supported every member of the Association's staff to seek a recognised professional qualification: more than a quarter of our staff have now achieved Chartered Institute of Insurance Certificate status, with a similar number in study and preparation.

Our business is in good health. Our underwriting capability is built on deep foundations of solvency. In turn, we manage the capital funds of the Association with prudence and a very conservative approach to risk. Our benchmark is to sustain the real value of our assets against inflation. During 2017 we adopted a very defensive position with the lowest level of market risk for several years, anticipating a significant correction as QE visibly draws towards rapid tapering with growth and inflation returning to developed economies. These events came to pass in the early weeks of 2018.

The year ahead looks more challenging than the year past. Especially so with both political and economic uncertainty in the UK. But we remain confident that our flexibility of products and people, coupled with our continuing thirst for innovative solutions to complex issues will ensure a further year of success.

Unlike most insurance companies we do not measure success by way of dividends, growth or market share. We always seek to minimise, not maximise, the premiums for our customers. Success for us is measured in the care we extend to our customers built upon our sound and robust management and finances.

I extend the Company's great thanks to Mr Mike Foden and Mr Kevin Butler who retired during the year, and, in turn, every member of this organisation for their efforts and commitment.


The Rt Hon The Earl of Cromer
23 March 2018



STRATEGIC REPORT

for the year ended 31 December 2017

Western Provident Association Limited is a company limited by guarantee; it is domiciled, incorporated and registered in England and Wales under number 00475557. The Directors here present their annual report together with the audited consolidated financial statements for the year ended 31 December 2017.

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, more commonly known as the balance sheet.

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 policyholders 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.

Review of 2017

The insurance business demonstrated our commitment to our customers and also to the future success of the Association. In late 2016 we implemented DELOS – our world leading insurance IT platform. This technology was recognised in our marketplace as class leading as we picked up seven industry awards, but more importantly the technology benefitted our customers as we authorised with quality, accuracy and certainty, 98.7% of properly presented claims at first point of contact.

We have utilised the DELOS technology to deliver innovative solutions that will further enhance our customers' experience. In the autumn of 2017 we launched Precision Corporate Healthcare and Precision Claim. As far as we are aware, Precision Claim will be the first medical insurance "app" worldwide that enables a customer to pre-authorise a claim. Precision Corporate Healthcare will be the first medical insurance policy for small and medium sized corporate entities that provides transparency of claims expenditure and allows the customer to configure their healthcare policy to one that best fits the needs of the company and their employees.

During 2017 we transitioned the WPA Healthcare Partners into the wholly owned subsidiary, WPA Healthcare Practice PLC, which is now authorised and regulated by the Financial Conduct Authority (FCA) as an insurance intermediary. This change further demonstrates that the Healthcare Partners work on behalf of their customers not WPA, and provides clearer identity to this important facet of the Group. Despite the change there have been, and will be, no changes to the culture, ethos or ethics of our sales practices. We demand honesty, integrity and professionalism from all our people and this is evident in our Financial Ombudsman Service (FOS) record, with only eight adverse adjudications in the last decade and none in 2017.

Financial results

	2017	2016
	£'000	£'000
Statutory reported profit before tax	2,015	4,795
Impact of exceptional items in relation to pension scheme	1,162	1,560
Underlying business profit	3,177	6,355
<i>Underlying profit attributable to:</i>		
<i>Insurance activities and healthcare administration fees</i>	355	1,300
<i>Net investment return</i>	2,822	5,055
Net assets reported in the Statement of Financial Position	183,303	183,364
Difference between IAS 19R and Scheme realistic funding basis	(8,252)	(13,900)
Underlying Net Assets	175,051	169,464



STRATEGIC REPORT

continued

The underlying results of the business remain sound, with the insurance business reporting a combined ratio of 99.5% (2016: 98.8%). Top line premium income increased marginally, the key performance indicator of like-for-like premium income – assuming all healthcare administration contracts were fully insured – increased by 0.9% (2016: 2.9%). Underlying customer numbers increased at a similar rate. Claims costs remained under control reporting a loss ratio of 78.6% (2016: 77.9%). Operating expenses rose marginally ahead of inflation, as a result of the expenditure on IT development and importantly improving our cyber-security defences. Overall the insurance and healthcare administration business reported an underlying profit before tax of £0.4m (2016: £1.3m).

The investment portfolio was defensively positioned throughout the year and produced an overall return of 1.3% (2016: 2.4%). We maintained our commitment of holding UK Government stock to back our ORSA and deployed a low risk strategy in the remainder of the portfolio. With global equities at all time highs, uncertainty around the impact of the UK's departure from the European Union, the unpredictable effect of the US President and the rising tension in Asia with North Korea, we decided to allocate a low proportion of the portfolio to equities. Consequently the portfolio did not benefit fully from increases in global equity markets in 2017, but similarly did not suffer as equity markets corrected in February 2018; a good demonstration of the commitment to capital preservation. As the published solvency capital ratios demonstrate, WPA is very well capitalised and this allows the business to adopt a low-risk strategy, beneficial to the business in the long term.

Under the European Insurance and Occupational Pensions Authority's (EIOPA) standard formula the Company's Solvency Capital Requirement (SCR) was 4.8 times covered by available regulatory capital (2016: 5.2 times covered). The Company's ORSA includes a self-assessment of the capital requirement that is more focused on the risk within the insurance business and less determined by the nature of the assets within investment portfolio. The self-assessed capital requirement under the ORSA is similar to that of the standard formula as at 31 December 2017.

As reported in previous financial statements the mandated accounting practice for the defined benefit pension scheme has an unrealistic impact on these financial statements. The Scheme is closed to future accrual and has a fully funded Liability Driven Investment strategy. This investment approach thus virtually eliminates inflation and interest rate risk from the Scheme.

As at the end of 2017 on a realistic "gilts flat" funding basis the Scheme had a modest surplus of £4m (2016: £1.2m). Under the prevailing accounting standards the Company is obliged to value the Scheme liabilities on an unrealistic "corporate bond" basis, thus these accounts report an IAS 19R accounting surplus of £12.3m (2016: £15.1m). We have considered whether the asset ceiling should be applied and discussed this with our auditor and other advisors. On this basis we have concluded that the correct accounting treatment in this complex area of judgement and interpretation is to recognise the net surplus under IAS 19R and IFRIC 14.



The increased flexibility now permitted under pension legislation has resulted in numerous individuals during the year electing to transfer their accrued benefits to a personal pension arrangement. This has resulted in £12.8m (2016: £15.3m) of transfers out of the Scheme. Because the transfers out are calculated on a gilts basis rather than the unrealistic "corporate bond" basis used in these financial statements it results in an exceptional cost of £1.2m during the year. This cost is purely because the IAS 19R accounting surplus in respect of these Scheme members is effectively eliminated.

Future outlook

Looking forward to 2018/19 the strategy remains unchanged: the pursuit of excellence in all that we do and to treat customers as we wish to be treated ourselves. From a financial perspective this translates to the objectives of breaking-even on our customer relationships over the medium-term and maintaining the real value of the investment portfolio. We are proud of our heritage and traditional values as a not-for-profit business, but are determined to remain a modern agile company.

Precision Claim and Precision Corporate Healthcare – powered by DELOS technology - are unrivalled in the UK private medical insurance industry and we expect our customers and potential new customers to utilise this technology to access and understand their medical insurance benefits at a time and date, and with a healthcare specialist of their choosing.

Overall WPA is in great shape and we expect to finish 2018 as healthy as we start.

Key performance indicators

Key performance indicators (KPIs) are reported to the Directors 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 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 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.



STRATEGIC REPORT

continued

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

	2017	2016	
Gross revenues (like-for-like)	£163.8m	£162.4m	Premiums, plus claims for Corporate Deductible and Protocol clients plus Protocol administration income.
Combined operating ratio	99.5%	98.8%	Ratio of claims, commissions and expenses (excluding Corporate Social Responsibility donations) to premiums.
Solvency II SCR coverage	4.8	5.2	Available regulatory capital divided by standard formula assessment.
Net investment return	1.3%	2.4%	Return as a percentage of portfolio value, net of fees.

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

Board of Directors

The members of the Board who served during the year are shown on page 15.

Principal risks and uncertainties

The Group has an established risk management framework covering all material activities, this culminates in the ORSA which is considered 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 a facultative policy. The mantra of Treating Customers Fairly is embedded throughout the business, best evidenced by our FOS record: only eight adverse adjudications in ten years and none in 2017.

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 the following ISO accreditations: 9001 Quality Management, 27001 Information Security Management, 22301 Business Continuity Management, 14001 Environmental Management. In addition the Group has commissioned an ISAE 3402 Service Auditor Report on the procedures undertaken on behalf of our Corporate Deductible and Protocol 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 the equity exposure. 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 and regular monitoring of investments which have a sound track record or management expertise in their chosen sector or geography. 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.
- **Credit risk.** The Group's primary credit risk is through deposit institutions, the 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 to the US Dollar exchange rate by virtue of US cash holdings coupled with the impact of Dollar rates on global equity holdings. The Investment Committee has discretion to use derivative instruments to protect the Sterling value of the portfolio. A secondary exposure is in respect of the cost of running the World Class Service subsidiary in India.
- **Liquidity risk.** The Group monitors its working capital on a daily basis. The cash instruments held within the investment portfolio ensure that there are always sufficient funds available to meet all operational requirements.



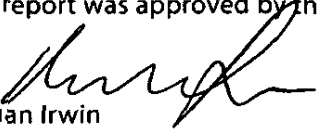
STRATEGIC REPORT

continued

Pension risk. The Pension Scheme fully implemented a Liability Driven Investment strategy during 2016. This has eliminated all market risk and immunised the Scheme against future deficits as a result of inflation and interest rate risk, 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 £149.9m (2016: £150.5m) in excess of liability requirements and as such the Board is satisfied that the Group remains a going concern.

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


Nathan Irwin
Chief Financial Officer
23 March 2018

DIRECTORS' REPORT

for the year ended 31 December 2017



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 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 development programmes.

Employees at all levels are aware of the broad aims and objectives of the organisation and are provided with full information on all matters concerning them. This is facilitated by the Visions & Values group, elected by staff. 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 opportunity 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 over 25% of the workforce have chosen to utilise flexible or part-time working 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 2017 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

A resolution to reappoint Deloitte LLP as auditor will be proposed at the Annual General Meeting.



DIRECTORS' REPORT

continued

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 the 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.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'Nathan Irwin', is written over the text 'BY ORDER OF THE BOARD'.

Nathan Irwin
Chief Financial Officer
23 March 2018

CORPORATE GOVERNANCE

for the year ended 31 December 2017



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 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 Group.

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 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, should this be necessary in the furtherance of their duties.

The Company is regulated by the PRA and the 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.

Government 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, and the Board receives regular reports on financial and operational matters. These include monthly ORSA snapshots, Treating Customers Fairly information and reports on performance both against the approved business plan and by comparison with the previous year and reporting on investment performance, liquidity and solvency.

The management of business risk is the responsibility of the executive management of the Group, managed through the Chief Executive's Committee. This meets monthly and comprises the Executive Directors and the Senior Management Team. Organisational arrangements include clearly defined lines of responsibility and authority limits. The identification of critical risks and the control environment are continuously monitored by the Operational Risk Team, reporting to the Risk Committee and to the Chief Executive's Committee.

The Board committees are set out on pages 13 & 14 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

The Audit Committee is composed of Independent Non-Executive Directors who meet regularly with senior management, the internal and the external auditors and ensure an independent and professional relationship is maintained with the auditors. 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 auditors requires the Committee's approval. The Committee holds a formal private meeting at least once a year with the internal and external auditors.

Investment Committee

The Investment Committee has clear investment 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 maintain the Group's capital comfortably to meet regulatory requirements.

Medical Advisory & Clinical Governance Committee

The Medical Advisory & 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.

Nominations Committee

The Nominations Committee leads the process for new Board appointments and makes recommendations to the Board to ensure the establishment and maintenance of a balanced, experienced and objective Board of Directors.

Personnel Committee

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 and subsequent training together with 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.



Remuneration Committee

The Remuneration Committee is composed of Independent Non-Executive Directors who determine policy to ensure that Executive Directors are fairly and properly rewarded for their individual and collective contributions to the Group's overall performance. The composition of the Committee ensures that such remuneration is settled by Board members who have no personal interest in the outcome of their decision. The Committee determines the remuneration strategy and policy for all senior staff and makes recommendations to the Board in respect of Executive Directors' remuneration.

Any performance rewards for senior managers and Executive Directors are explicitly linked to their performance but also take account of the performance of the Group as a whole.

Risk Committee

The Committee acts as a steward of the Risk Management Framework and provides objective oversight of the risk management process with regard to risk identification, assessment, appetite and management. It supports the Board in ensuring WPA remains compliant with relevant legislation, advises the Board on the appropriateness of the ORSA, and promotes a risk awareness culture throughout the Group. The Committee receives assurance from a variety of internal audit 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.

Internal control

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 has been delegated to the Chief Financial 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 is appropriate for the Group's needs.



BOARD OF DIRECTORS & PRINCIPAL OFFICERS

for the year ended 31 December 2017

Vice President Nigel Blackwell
Vice President Michael Foden (appointed 3 May 2017)

Board of Directors

Chairman The Rt Hon The Earl of Cromer – Non-Executive
Vice Chairman Henry Kenyon – Non-Executive
Chief Executive Julian Stainton
Executive Rod Bramston
Andrew Haworth
Nathan Irwin
Non-Executive Kevin Butler (retired 3 May 2017)
John Chester
Michael Foden (retired 3 May 2017)
Henry Kenyon
Martin Kramer
Robert Lee
John Pugh – Senior Independent Non-Executive
Rachel Riley

Company Secretary

Nicola Royle

Directors and Officers of subsidiaries not listed above

Kimberley Bell
Brian Goodman
Neville Kavarana
Lisa O'Brien
Mark Southern
Denize Spierenburg
Ellis Turley

Chief Actuary

Donna Eavis

Statutory Auditor

Deloitte LLP

Bankers

National Westminster Bank Plc



Principal Committees of the Board

Audit Committee	John Pugh FCA – Chairman Henry Kenyon FCA Robert Lee MA FIA
Investment Committee	Nathan Irwin FCA – Chairman The Rt Hon The Earl of Cromer Donna Eavis ACMA Mark Eggar FRM ACMA Henry Kenyon FCA Julian Stainton
Medical Advisory & Clinical Governance Committee	John Chester FRCP FRCS – Chairman and Chief Medical Officer Keith Bates FRCS Stephen Falk FRCR Martin Grover FRCS
Personnel Committee	Rachel Riley MSc – Chairman Neil Davidson ACMA CMIIA Andrew Haworth LLB Nathan Irwin FCA Lady Merrison Tracy Sheen MA FCIPD Julian Stainton Ellis Turley Cert CII
Remuneration Committee	Henry Kenyon FCA – Chairman The Rt Hon The Earl of Cromer John Pugh FCA
Risk Committee	Robert Lee MA FIA – Chairman Henry Kenyon FCA John Pugh FCA



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 give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit 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 of Western Provident Association Limited (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statements of Changes in Equity;
- the Consolidated Statement of Financial Position;
- 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;
- the Accounting Policies; and
- the related notes 1 to 21.

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 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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified were: <ul style="list-style-type: none">• Insurance reserving• Valuation of unlisted investments
Materiality	The materiality that we used for the Group financial statements was £1,253k 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTERN PROVIDENT ASSOCIATION LIMITED continued

Insurance reserving	
Key audit matter description	<p>Insurance reserving is the most significant area of management estimate within the Group's financial statements. Due to the short-tailed nature of the Group's exposure to insurance risk, the calculation of the reserve is fairly mechanical; therefore the appropriateness of the reserving model was our primary area of audit focus, being the key area of management estimate. Due to the significance of management's estimates, we have identified the risk of fraud in relation to this key audit matter.</p> <p>In addition, the methodology applied in arriving at the reserves for large corporate clients, which is part of the reserving model, is complex due to the use of multiple reports from the policy and claims administration system and the bespoke nature of the contracts.</p> <p>Claims reserves include an incurred but not reported amount of £9.4m at the end of 2017 compared to £9.6m at the end of the previous period.</p> <p>This risk is referred to by the Board in their Strategic Report, section III of the financial statements on significant estimates and judgements and the insurance risk management note 20.2.</p>
How the scope of our audit responded to the key audit matter	<p>Appropriateness of the reserving model</p> <p>We evaluated the design and implementation of key internal controls regarding this key audit matter.</p> <p>We have tested the consistency of the reserving model by comparing each element of the reserve to those included in the previous year, and auditing these individually.</p> <p>Due to the short-tailed nature of the Group's insurance risk we analysed the run-off of the 2017 reserve post year-end to assess if the run-off curve is in line with previous years.</p> <p>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 as a result of this.</p> <p>We tested the mechanical accuracy of calculations and formulas through re-performance.</p> <p>Our IT specialists assisted in testing the completeness and accuracy of the key underlying data used in reserving where appropriate.</p>

<p>How the scope of our audit responded to the key audit matter (continued)</p>	<p>Mechanical accuracy of data input and calculation for large corporate reserving</p> <p>We evaluated the design and implementation of key internal controls regarding this key audit matter.</p> <p>We performed tests of detail for a sample of large corporate customers included in the reserving calculations and related manual data entries with reference to contractual information.</p> <p>We performed analytics on the model that management use in the calculation for the large corporate reserve to assess for consistency and complexity; performing additional procedures where necessary.</p> <p>Where appropriate, we tested the completeness and accuracy of the key underlying data used in the reserving calculation.</p>
<p>Key observations</p>	<p>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.</p> <p>Our procedures performed to test the mechanical accuracy of data input and calculation for large corporate reserving did not identify any material misstatements.</p>
<p>Valuation of unlisted investments</p>	
<p>Key audit matter description</p>	<p>The Group holds an unlisted equity investment of £5m (2016: £5m) in a start-up company. Management made the judgement that the value of this investment should equal the cost as the fair value cannot be reliably measured at year-end.</p> <p>The valuation of this investment requires significant management judgement and is inherently uncertain given the start-up nature of the investment. The judgements include consideration on whether there is a reliable fair value for this investment, and whether the investment is impaired.</p> <p>This risk is referred to by the Board in their Strategic Report, section III of the financial statements on significant estimates and judgements and the financial risk management note 20.1a).</p>



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTERN PROVIDENT ASSOCIATION LIMITED continued

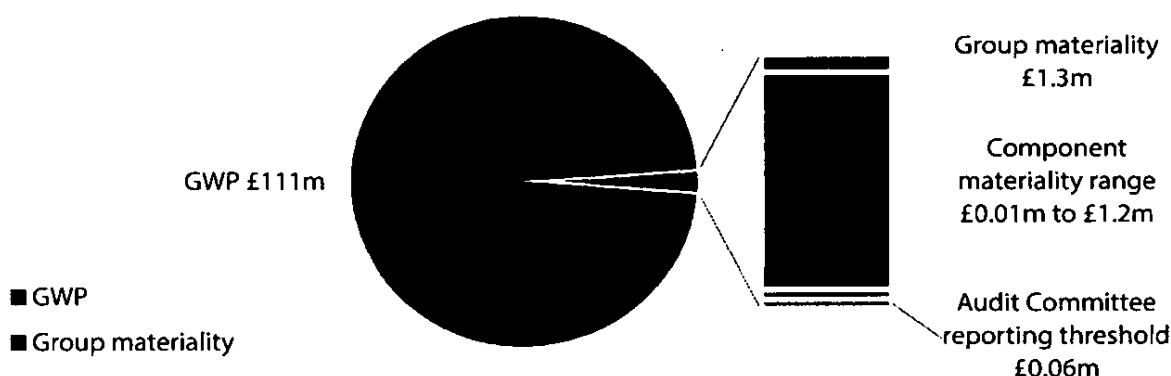
<p>How the scope of our audit responded to the key audit matter</p>	<p>We have evaluated the design and implementation of key internal controls regarding the valuation of the investment.</p> <p>We have reviewed management's judgement paper on the proposed valuation approach for this investment.</p> <p>Using the assistance of our financial instruments specialists, we have tested the valuation of the unlisted investment under IAS 39 and IFRS 13. In doing so, we have assessed different valuation options for the investment under IFRS 13 and their appropriateness, including valuation at cost.</p> <p>We have evaluated whether the unlisted investment would need to be held at a value lower than management's valuation, taking into account suitable external sources available to inform the share price of the investment as at 31 December 2017. This included agreeing the latest share issue price to Companies House records and review of the latest available audited financial statements of the investment.</p> <p>We have performed a news search to evaluate whether there is any publicly available information on the progress of the start-up business that would impact upon management's valuation.</p> <p>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 nature of judgements and estimates made by management on this investment are appropriately disclosed.</p>
<p>Key observations</p>	<p>Overall we found management's approach to value the unlisted investment at cost appropriate.</p> <p>Whilst the valuation of a start-up business is inherently judgemental, we did not find any indicators that the investment should be impaired at the end of 2017.</p> <p>We have found the disclosures in section III of the financial statements and note 20.1a) to be in line with the estimates and judgements made by management.</p>

Our application of materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£1,253k	£1,240k
Basis for determining materiality	1.14% of Gross Written Premium	1.12% of Gross Written Premiums
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.	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £63k for the Group, 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.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement 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 £10k to £1,240k. Audit work to respond to the risks of material misstatement was performed by the Group Audit Engagement Team.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTERN PROVIDENT ASSOCIATION LIMITED continued

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, rolling forward the latest audited financial statements for the March 2017 year-end.

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



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 Statement of Directors' Responsibilities, 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.

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

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.

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 of 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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTERN PROVIDENT ASSOCIATION LIMITED continued

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.

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 five years, covering the years ending 31 December 2013 to 31 December 2017.

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).

A handwritten signature in black ink, appearing to read 'Simon Cleveland'.

Simon Cleveland FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

23 March 2018

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017



	Note	2017		2016	
		£'000	£'000	£'000	£'000
Net insurance premium	II(a)				
– Premium receivable	1(a)	110,991		108,004	
– Change in unearned premium provision		(1,043)		(959)	
Premium arising from insurance contracts issued	1(a)		109,948		107,045
– Reinsurance premium payable	1(a)	(3,763)		(2,695)	
– Change in unearned premium provision, reinsurers' share	1(a)	655		85	
Premium ceded to reinsurers on insurance contracts issued			(3,108)		(2,610)
Net insurance premium			106,840		104,435
Administration income	2		1,990		1,971
Net insurance and administration income			108,830		106,406
Investment return	3		2,907		5,071
Total income			111,737		111,477
Net insurance claims	II(d)				
Claims paid: Gross amount	1(b)	(86,798)		(83,687)	
Less reinsurers' share	1(b)	2,646		2,964	
Net claims paid	1(b)		(84,152)		(80,723)
Change in the net provision for claims	1(b)		208		(585)
Net insurance claims			(83,944)		(81,308)
Operating and administrative expenses	4(a)		(24,525)		(23,790)
Exceptional items in relation to the pension scheme	17		(1,162)		(1,560)
Investment management expenses			(85)		(16)
Corporate Social Responsibility donations	4(b)		(6)		(8)
Total expenses			(109,722)		(106,682)
Profit on ordinary activities before tax	5		2,015		4,795
Tax on profit on ordinary activities	6		(300)		(700)
Profit for the financial year			1,715		4,095



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Profit for the financial year		1,715	4,095
Post employment actuarial loss, net of tax	17	(1,774)	(3,798)
Currency translation differences, net of tax		(2)	27
Total comprehensive (loss)/income for the year		(61)	324

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Note	Retained earnings £'000	Currency translation differences £'000	Reserves £'000
At 1 January 2016		183,114	(74)	183,040
Profit for the year		4,095	–	4,095
Other comprehensive income				
– Pension scheme actuarial loss, net of tax	17	(3,798)	–	(3,798)
– Currency translation differences, net of tax		–	27	27
At 31 December 2016		183,411	(47)	183,364
Profit for the year		1,715	–	1,715
Other comprehensive income				
– Post employment actuarial loss, net of tax	17	(1,774)	–	(1,774)
– Currency translation differences, net of tax		–	(2)	(2)
At 31 December 2017		183,352	(49)	183,303

CONSOLIDATED STATEMENT OF FINANCIAL POSITION



as at 31 December 2017

Assets	Note	2017 £'000	2016 £'000
Post employment benefits	17	12,289	15,092
Intangible assets	9	898	473
Property, plant and equipment	10	5,121	5,217
Investment property	11	2,438	-
Deferred acquisition costs		4,648	4,535
Financial assets	12	180,145	185,177
Loans and other receivables			
- Debtors arising out of direct insurance operations	13	37,708	35,251
- Corporation tax recoverable		1,671	1,149
- Other debtors		523	89
- Prepayments and accrued income		892	807
Cash and cash equivalents		7,030	5,717
Total assets		253,363	253,507
Liabilities			
Reserves		183,303	183,364
Post employment benefits	17	637	550
Insurance liabilities			
- Provision for unearned premiums	1(a)	47,428	47,040
- Claims outstanding	1(b)	9,356	9,564
Deferred tax	7	884	362
Trade and other payables			
- Payables arising out of direct insurance operations		5,019	5,678
- Other creditors		6,736	6,949
Total equity and liabilities		253,363	253,507



CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash used by operations	14	(2,048)	(5,653)
Net tax recovered/(paid)		45	(1,460)
Net receipts from financial assets		6,968	7,569
Net payments for investment property		(2,438)	-
Net cash from operating activities		2,527	456
Cash flows from investing activities			
Purchase of intangible fixed asset		(987)	(631)
Purchases of property, plant and equipment		(227)	(461)
Proceeds from sales of property, plant and equipment		2	62
Net cash used in investing activities		(1,212)	(1,030)
Net increase/(decrease) in cash and cash equivalents		1,315	(574)
Cash and cash equivalents at beginning of year		5,717	6,264
Currency translation differences		(2)	27
Cash and cash equivalents at end of year		7,030	5,717

PARENT COMPANY STATEMENT OF FINANCIAL POSITION


as at 31 December 2017




Assets	Note	2017 £'000	2016 £'000
Post employment benefits	17	12,289	15,092
Investments in group undertakings	8	934	934
Intangible assets	9	898	473
Property, plant and equipment	10	5,048	5,165
Deferred acquisition costs		4,648	4,535
Financial assets	12	180,145	185,177
Loans and other receivables			
– Debtors arising out of direct insurance operations	13	37,708	35,251
– Amounts owed by Group undertakings		2,515	–
– Corporation tax recoverable		1,577	1,119
– Other debtors		1	1
– Prepayments and accrued income		838	743
Cash and cash equivalents		4,028	2,950
Total assets		250,629	251,440
Liabilities			
Reserves		181,021	181,398
Post employment benefits	17	637	550
Insurance liabilities			
– Provision for unearned premiums	1(a)	47,428	47,040
– Claims outstanding	1(b)	9,356	9,564
Deferred tax	7	884	362
Trade and other payables			
– Payables arising out of direct insurance operations		5,019	5,678
– Amounts owed to Group undertakings		–	256
– Other creditors		6,284	6,592
Total equity and liabilities		250,629	251,440

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

The accounts on pages 26 to 56 were approved and authorised for issue by the Board of Directors on 23 March 2018 and were signed on its behalf by:


 The Rt Hon The Earl of Cromer
 CHAIRMAN


 Julian Stainton
 CHIEF EXECUTIVE


 Nathan Irwin
 CHIEF FINANCIAL OFFICER

The notes on pages 37 to 56 form part of these accounts



PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Note	Retained earnings £'000	Currency translation differences £'000	Reserves £'000
At 1 January 2016		181,444	-	181,444
Profit for the year		3,752	-	3,752
Other comprehensive income				
– Pension scheme actuarial loss, net of tax	17	(3,798)	-	(3,798)
At 31 December 2016		181,398	-	181,398
Profit for the year		1,397	-	1,397
Other comprehensive income				
– Post employment actuarial loss, net of tax	17	(1,774)	-	(1,774)
At 31 December 2017		181,021	-	181,021

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash used by operations	14	(4,846)	(5,817)
Tax recovered/(paid)		145	(1,414)
Net receipts from financial assets		6,968	7,569
Net cash from operating activities		2,267	338
Cash flows from investing activities			
Purchase of subsidiary shares		-	(250)
Purchase of intangible fixed assets		(987)	(631)
Purchases of property, plant and equipment		(204)	(402)
Proceeds from sales of property, plant and equipment		2	62
Net cash used in investing activities		(1,189)	(1,221)
Net increase/(decrease) in cash and cash equivalents		1,078	(883)
Cash and cash equivalents at beginning of year		2,950	3,833
Cash and cash equivalents at end of year		4,028	2,950

ACCOUNTING POLICIES

for the year ended 31 December 2017



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 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 Accounting Policies III.

The consolidated accounts incorporate the accounts of the Company and its subsidiaries, drawn up to 31 December 2017. 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 inceptioned 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 inceptioned in the financial 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.

(b) Acquisition costs

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



ACCOUNTING POLICIES

continued

(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 (2016: 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 yet 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 yet 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 continuously 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

Costs in respect of operating leases are charged to the Income Statement as incurred.



(g) Financial assets and liabilities

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

Fair value through profit and loss assets that are traded in an active market are valued at bid price on the last stock exchange trading day of the year. The fair value of other financial assets for which there is no quoted market price is determined by a variety of methods including net asset values provided by fund administrators. Directly held unlisted equities are measured 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. Dividends on equity investments and other investment income are accounted for when receivable.

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

(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 of 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 2 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



ACCOUNTING POLICIES

continued

interest and are revalued annually and included in the accounts at valuation. 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	Motor vehicles	– 4 years
Furniture and fittings	– 6 years	Computer equipment	– 3 years

(m) Investment property

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

(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, which closed to future accrual on 31 December 2015 (the 'Scheme') and also makes contributions to a Group Personal Pension. 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. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the Income Statement on a straight-line basis over the

period in which the increases in benefits vest. The interest charge and interest income are recognised on a net basis and shown within the investment return.

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

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

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 yet reported at the balance sheet date. The valuation method for claims outstanding is described in section (e) of the basis of accounting.

The valuation of properties is based on a range of assumptions and estimates, with reference to empirical experience of the local property market.

The Group has holdings in collective investment funds and unlisted equities. The underlying investments are not listed on recognised exchanges and hence the valuations are undertaken by management and where appropriate are based on the information provided by the relevant Investment Managers.

(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 Pension Scheme's Trust deed and rules and thus the Company is mandated to recognise the Pension 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 Goodwood House is deemed to be cost as the fair value cannot be reliably determined due to being under construction. The valuation techniques includes inputs for the investment properties that are unobservable.

Directly held unlisted equities are valued at cost less impairment when it is judged that there is no reliable indicator for fair value as described in section (g) of the basis of accounting.



NOTES TO THE ACCOUNTS

for the year ended 31 December 2017

1) Disclosures for insurance contracts

(a) Movement in unearned premiums

	2017 £'000			2016 £'000		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at 1 January	47,193	(153)	47,040	46,234	(68)	46,166
Premiums written in the year	110,991	(3,763)	107,228	108,004	(2,695)	105,309
Premiums earned during the year	(109,948)	3,108	(106,840)	(107,045)	2,610	(104,435)
Balance at 31 December	48,236	(808)	47,428	47,193	(153)	47,040

(b) Movement in claims outstanding	2017 £'000			2016 £'000		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at 1 January	9,764	(200)	9,564	9,119	(140)	8,979
Movement in claims incurred in prior years	(73)	-	(73)	(525)	-	(525)
Claims incurred in the current year	86,611	(2,594)	84,017	84,857	(3,024)	81,833
Claims paid during the year	(86,798)	2,646	(84,152)	(83,687)	2,964	(80,723)
Balance at 31 December	9,504	(148)	9,356	9,764	(200)	9,564

(c) Movement in deferred acquisition costs	2017 £'000		2016 £'000	
Balance at 1 January	4,535		3,905	
Movement in the year	113		630	
Balance at 31 December	4,648		4,535	

2) Other income

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

3) Investment return	2017 £'000		2016 £'000	
Dividend income	193		152	
Interest received	978		969	
Losses on exchange rate movements	(1,212)		(110)	
	(41)		1,011	
Net gains on realisation of investments	621		5,500	
Unrealised investment gains/(losses)	1,936		(1,854)	
Net interest on pension scheme (note 17)	391		414	
	2,907		5,071	

4) Net operating expenses	2017	2016
(a) Other operating and administrative expenses	£'000	£'000
Acquisition costs	10,729	10,688
Change in deferred acquisition costs	(113)	(630)
Administrative expenses	19,684	19,777
FSCS levy	220	232
Gross operating expenses	30,520	30,067
Claims handling expenses	(5,995)	(6,277)
	24,525	23,790
(b) Corporate Social Responsibility donations	2017	2016
	£'000	£'000
Donations to charitable activities	6	8
5) Profit on ordinary activities before tax	2017	2016
	£'000	£'000
Profit on ordinary activities before tax is stated after:		
Property revaluation surplus	98	98
Amortisation	(562)	(158)
Depreciation on property, plant and equipment	(419)	(587)
Profit on disposal of property, plant and equipment	–	23
Auditor remuneration for:		
Audit (Company £125,000 (2016: £106,000))	(134)	(115)
Audit related assurance services – UK regulatory compliance	(36)	(40)
Other assurance work – other services	(35)	(24)
Operating lease costs	(128)	(120)
6) Tax	2017	2016
(a) Analysis of charge in year	£'000	£'000
UK corporation tax at 19.25% (2016: 20%)	–	–
Adjustment for prior periods	(601)	(87)
	(601)	(87)
Overseas tax	34	26
Total current tax	(567)	(61)
Deferred tax (note 7)		
Origination and reversal of timing differences	487	(483)
Movement on post employment benefits	380	1,264
Change in tax rate	–	(20)
Total deferred tax	867	761
Tax charge for the current year	300	700

The principal rate of UK corporation tax was 19% for the financial year 2017.

Note 6 continues on opposite page...



NOTES TO THE ACCOUNTS

continued

(b) Factors affecting the tax charge for the year

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

	2017 £'000	2016 £'000
Profit before tax	2,015	4,795
Notional charge at UK corporation tax rate of 19.25% (2016: 20%)	388	959
Franked investment income not taxable	(37)	(30)
Permanent timing differences	26	21
Items outside the scope of UK tax	(18)	(18)
Tax relating to overseas subsidiaries	34	26
Changes in tax rates	(42)	(160)
Adjustment to prior periods' tax	(601)	(87)
Deferred tax: prior year	550	(11)
Tax on profit on ordinary activities	300	700

(c) Factors that may affect future tax charges

The principal rate of UK corporation tax was 19% for the financial year 2017 (2016: 20%). A 2% reduction is planned for the financial year 2020. It is not anticipated that this will have a material impact on the Group. There are no other factors that may affect future charges.

(d) Analysis of tax credit relating to components of other comprehensive income

	2017 £'000			2016 £'000		
	Before tax	Tax credit	After tax	Before tax	Tax credit	After tax
Currency translation differences	(2)	–	(2)	27	–	27
Movement on pension scheme (note 17)	(2,032)	345	(1,687)	(4,576)	778	(3,798)
Other comprehensive income	(2,034)	345	(1,689)	(4,549)	778	(3,771)

All tax credits 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 2016	(753)	–	74	302	(377)
Movement in provision recognised in Income Statement	(1,225)	472	19	(29)	(763)
Movement in provision recognised in other comprehensive income	778	–	–	–	778
At 31 December 2016	(1,200)	472	93	273	(362)
Movement in provision recognised in Income Statement	(380)	(332)	15	(170)	(867)
Movement in provision recognised in other comprehensive income	345	–	–	–	345
At 31 December 2017	(1,235)	140	108	103	(884)
Company					
At 1 January 2016	(753)	–	74	302	(377)
Movement in provision recognised in Income Statement	(1,225)	472	19	(29)	(763)
Movement in provision recognised in other comprehensive income	778	–	–	–	778
At 31 December 2016	(1,200)	472	93	273	(362)
Movement in provision recognised in Income Statement	(380)	(332)	15	(170)	(867)
Movement in provision recognised in other comprehensive income	345	–	–	–	345
At 31 December 2017	(1,235)	140	108	103	(884)

If the freehold property was sold at its current market value there would be a capital loss of £4,900,000 (2016: £4,900,000). There is a deferred tax asset of £833,000 (2016: £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.



NOTES TO THE ACCOUNTS

continued

8) Investment in Group undertakings

	2017 £'000	2016 £'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 at WPA's address under the number shown against each one and has capital comprising £1 ordinary shares in issue, except where shown otherwise:

WPA Investments Limited
WPA Protocol Plc

- Investment company (No. 02591944)
- Claims and administration services company (No. 02755175)
- Data processing company

WPA World Class Service (India) Private Ltd*
(a company registered in India with capital comprising INR10 ordinary shares)

- Dormant company (No. 07320330)

WPA Healthcare Practice PLC
(capital comprising £5 ordinary shares in issue)

- Trustee company (No. 04562414)
- Trustee company (No. 04710981)
- Dormant company (No. 10458139)
- Dormant company (No. 04174987)
- Dormant company (No. 03831968)
- Dormant company (No. 02593389)
- Dormant company (No. 02593390)
- Dormant company (No. 11110094)

WPA Health Trustee Limited

WPA Pension Trustees Limited

Delos IT Solutions Limited

Self-Pay Limited

Stoploss Insurance Services Limited

WPA Insurance Services Limited

WPA Investments (Development) Limited

WPA Property Services Limited

(incorporated 13 December 2017)

XS Health Limited

XS Insurance Services Limited

- Dormant company (No. 03926481)
- Dormant company (No. 03783854)

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

All subsidiaries are accounted for in accordance with IFRS1, using deemed cost. The deemed cost was the value reported in the accounts in accordance with UK GAAP at the transition date to IFRS. 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.

9) Intangible assets

	Computer software £'000	Total £'000
Group		
Cost or valuation		
At 1 January 2016	–	–
Additions	631	631
At 31 December 2016	631	631
Additions	987	987
At 31 December 2017	1,618	1,618
Amortisation		
At 1 January 2016	–	–
Provided in the year	158	158
At 31 December 2016	158	158
Provided in the year	562	562
At 31 December 2017	720	720
Net book value at 31 December 2016	473	473
Net book value at 31 December 2017	898	898
	Computer software £'000	Total £'000
Company		
Cost or valuation		
At 1 January 2016	–	–
Additions	631	631
At 31 December 2016	631	631
Additions	987	987
At 31 December 2017	1,618	1,618
Amortisation		
At 1 January 2016	–	–
Provided in the year	158	158
At 31 December 2016	158	158
Provided in the year	562	562
At 31 December 2017	720	720
Net book value at 31 December 2016	473	473
Net book value at 31 December 2017	898	898



NOTES TO THE ACCOUNTS

continued

10) Property, plant and equipment

Group	Freehold property £'000	Furniture & fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2016	4,822	2,090	3,135	341	10,388
Additions	-	90	102	269	461
Disposals	-	(97)	(224)	(183)	(504)
Revaluation	98	-	-	-	98
At 31 December 2016	4,920	2,083	3,013	427	10,443
Additions	-	150	41	36	227
Disposals	-	(46)	(31)	-	(77)
Revaluation	98	-	-	-	98
At 31 December 2017	5,018	2,187	3,023	463	10,691
Depreciation					
At 1 January 2016	388	1,712	2,778	226	5,104
Provided in the year	98	125	294	70	587
Elimination in respect of disposals	-	(97)	(223)	(145)	(465)
At 31 December 2016	486	1,740	2,849	151	5,226
Provided in the year	98	112	114	95	419
Elimination in respect of disposals	-	(45)	(30)	-	(75)
At 31 December 2017	584	1,807	2,933	246	5,570
Net book value at 31 December 2016	4,434	343	164	276	5,217
Net book value at 31 December 2017	4,434	380	90	217	5,121

Note 10 continues overleaf...

Company	Freehold property £'000	Furniture & fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2016	4,807	1,940	3,011	314	10,072
Additions	–	65	77	260	402
Disposals	–	(94)	(217)	(183)	(494)
Revaluation	98	–	–	–	98
At 31 December 2016	4,905	1,911	2,871	391	10,078
Additions	–	123	44	37	204
Disposals	–	(46)	(31)	–	(77)
Revaluation	98	–	–	–	98
At 31 December 2017	5,003	1,988	2,884	428	10,303
Depreciation					
At 1 January 2016	388	1,573	2,668	219	4,848
Provided in the year	98	97	260	66	521
Elimination in respect of disposals	–	(94)	(217)	(145)	(456)
At 31 December 2016	486	1,576	2,711	140	4,913
Provided in the year	98	111	116	92	417
Elimination in respect of disposals	–	(45)	(30)	–	(75)
At 31 December 2017	584	1,642	2,797	232	5,255
Net book value at 31 December 2016	4,419	335	160	251	5,165
Net book value at 31 December 2017	4,419	346	87	196	5,048

The properties were valued on 31 December 2016 and 2017 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 and cost less depreciation of £4,578,000 (2016: £4,766,000).

The Level 3 fair value measurement used for properties is that derived from a valuation technique that includes inputs for the asset that are unobservable.



NOTES TO THE ACCOUNTS

continued

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.

During the year WPA Investments Limited purchased a property, Goodwood House. The property is located in Taunton. Although the Group has no contractual obligation to develop the property it is intended that the property will be refurbished before being leased or sold and, as such, is held as an investment property. The fair value of Goodwood House is deemed to be cost as it cannot be reliably determined due to being under construction.

Once construction has been completed it is intended that investment property will be valued periodically by independent valuation specialists. Investment property is categorised as level three within the fair value hierarchy.

Group	2017 £'000	2016 £'000
At 1 January	-	-
Additions through acquisition	2,438	-
Additions through expenditure	-	-
Disposals	-	-
Movement in fair value	-	-
At 31 December	2,438	-

12) Financial assets

	Carrying value	
Group and Company	2017 £'000	2016 £'000
Fair value through profit and loss		
Equity	5,000	5,000
Collective investment funds	30,661	29,991
Forward currency contract	-	(19)
Deposits with credit institutions at floating rates	46,268	41,629
Held to maturity		
Government issued securities	77,836	81,297
Deposits with credit institutions at floating rates	-	10,026
Debt and other fixed income securities	20,380	17,253
	180,145	185,177

No forward currency contracts were taken out during the year.

13) Debtors arising from direct insurance operations

As at 31 December 2017 premium due but not received amounted to £1,052,000 (2016: £1,067,000). A provision for impairment of £89,000 was made as at 31 December 2017 (2016: £280,000). 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 £42,000 (2016: £127,000) 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	2017 £'000	2016 £'000
Premium due	1,052	1,067
Premium not yet due	36,787	34,591
Allowance for bad and doubtful debts	(131)	(407)
	37,708	35,251

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

Group and Company	2017 £'000	2016 £'000
At 1 January	407	292
- Amounts (credited)/charged to Income Statement	(234)	242
- Amounts written off	(42)	(127)
At 31 December	131	407

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.



NOTES TO THE ACCOUNTS

continued

14) Notes to the Statement of Cash Flows Group	2017 £'000	2016 £'000
Profit before tax	2,015	4,795
Adjustments for:		
– Amortisation	562	158
– Depreciation	419	587
– Profit on disposal of property, plant and equipment	–	(23)
– Pension scheme operating charge net of exceptional items	1,162	1,560
– Employer defined benefit pension contributions	–	(13,567)
– Net interest on pension scheme	(391)	(414)
– Increase on revaluation of property, plant and equipment	(98)	(98)
– Increase in deferred acquisition costs	(113)	(630)
– Unrealised investment (gains)/losses	(1,936)	1,854
– Increase in post employment medical benefits	–	137
Operational cash flows before movements in working capital	1,620	(5,641)
Increase in debtors arising out of direct insurance operations	(2,457)	(2,417)
Increase in other debtors	(434)	(53)
(Increase)/decrease in prepayments and accrued income	(85)	17
Increase in insurance liabilities	180	1,459
Decrease in payables arising out of direct insurance operations	(659)	(608)
Decrease/(increase) in other creditors	(213)	1,590
Cash used by operations	(2,048)	(5,653)

Company	2017 £'000	2016 £'000
Profit before tax	1,661	4,426
Adjustments for:		
– Amortisation	562	158
– Depreciation	417	521
– Loss on disposal of property, plant and equipment	–	(24)
– Pension scheme operating charge net of exceptional items	1,162	1,560
– Employer defined benefit pension contributions	–	(13,567)
– Net interest on pension scheme	(391)	(414)
– Increase on revaluation of property, plant and equipment	(98)	(98)
– Increase in deferred acquisition costs	(113)	(630)
– Unrealised investment (gains)/losses	(1,936)	1,854
– Increase in post employment medical benefits	–	137
Operational cash flows before movements in working capital	1,264	(6,077)
Increase in debtors arising out of direct insurance operations	(2,457)	(2,417)
Increase in amounts owed by Group undertakings	(2,515)	–
Decrease in other debtors	–	6
Increase/(decrease) in prepayments and accrued income	(95)	23
Increase in insurance liabilities	180	1,459
Decrease in payables arising out of direct insurance operations	(659)	(608)
(Decrease)/increase in other creditors	(564)	1,797
Cash used by operations	(4,846)	(5,817)

15) Employee information

		Group		Company	
		2017	2016	2017	2016
Monthly average number of persons (including Executive Directors) employed on permanent contracts		301	307	259	259
Monthly average FTE (including Executive Directors) employed on permanent contracts		281	284	240	237
		£'000	£'000	£'000	£'000
Staff costs:	Wages and salaries	11,463	10,864	11,052	10,527
	Social security costs	1,147	1,118	1,152	1,097
	Other pension costs	880	884	841	856
		13,490	12,866	13,045	12,480

16) Directors' emoluments

		2017	2016
		£'000	£'000
Salary	Salary	2,067	1,875
	Pension related benefits	292	304
	Benefits-in-kind	49	68
	Amounts payable under short-term incentive plans	348	298
	Amounts payable under long-term incentive plans	148	178
Aggregate emoluments		2,904	2,723
Highest paid Director	Salary	471	423
	Pension related benefits	94	85
	Benefits-in-kind	10	19
	Amounts payable under short-term incentive plans	85	85
	Amounts payable under long-term incentive plans	64	64
Aggregate emoluments for highest paid Director		724	676

17) Post employment benefits

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

The asset recognised in the consolidated Statement of Financial Position in respect of the Scheme is the fair value of Scheme assets less the present value of the defined benefit obligation at the end of the financial reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate to the terms of the related pension liability.

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

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.

Note 17 continues overleaf...



NOTES TO THE ACCOUNTS

continued

The major assumptions used by the actuary were:	2017	2016
Rate of increase of pensions in payment	3.20%	3.35%
Discount rate	2.40%	2.70%
Inflation assumption – RPI	3.30%	3.45%
– CPI	2.80%	2.95%
Members taking maximum lump sum	75%	75%
Proportions married	85%	85%
Expected return on Scheme assets	2.4%	2.7%

The weighted average duration of the defined benefit obligations is 22 years (2016: 31 years).

A 0.25% increase in the assumption made for discount rate would, in isolation, have decreased the valuation of Scheme liabilities by £2,534,000; 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 £1,410,000; 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 £1,559,000. If the proportions married were to increase by 10% this would increase the Scheme liabilities by £493,000, 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:	2017		2016	
	Male	Female	Male	Female
Member age 60 (current life expectancy)	29.7	31.1	29.5	31.0
Member age 45 (life expectancy at age 60)	31.4	32.9	31.2	32.8

Scheme assets:	£'000	£'000
Gilts	57,058	71,476
Annuity policies	146	183
Other	(448)	(2,836)
Total market value of assets	56,756	68,823
Actuarial value of liabilities	(44,467)	(53,731)
Scheme asset	12,289	15,092
Related deferred tax asset	345	778
Net Scheme asset	12,634	15,870

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

Analysis of Scheme costs included within net operating expenses (note 4)	2017 £'000	2016 £'000
Loss on settlements	1,162	1,560

	2017	2016
	£'000	£'000
Analysis of net interest cost on Scheme included within investment return (note 3)		
Expected return on Scheme assets	1,675	2,306
Interest on Scheme liabilities	(1,284)	(1,892)
Net interest on Scheme	391	414
	2017	2016
	£'000	£'000
Statement of Changes in Equity		
Return on plan assets (excluding interest income)	(113)	13,536
Changes in assumptions	(1,919)	(18,112)
Actuarial loss recognised	(2,032)	(4,576)
Related deferred tax credit	345	778
Changes in equity	(1,687)	(3,798)
	2017	2016
	£'000	£'000
Movement in value of Scheme during the year		
Change in benefit obligation		
Present value of benefit obligation at beginning of year	53,731	48,665
Loss on settlements	1,162	1,560
Interest cost	1,284	1,892
Actuarial changes – Effect of changes in financial assumptions	2,022	15,349
– Effect of experience adjustments	(103)	2,763
Benefits paid	(13,629)	(16,498)
Present value of benefit obligations at end of year	44,467	53,731
	2017	2016
	£'000	£'000
Change in Scheme assets		
Fair value of Scheme assets at beginning of year	68,823	55,912
Interest income	1,675	2,306
Return on Scheme assets (excluding interest income)	(113)	13,536
Employer contributions (including employer direct benefit payments)	–	13,567
Benefits paid and transfers out	(13,629)	(16,498)
Fair value of Scheme assets at end of year	56,756	68,823
	2017	2016
	£'000	£'000
History of assets and liabilities		
Total market value of assets	56,756	68,823
Present value of Scheme liabilities	(44,467)	(53,731)
Scheme surplus	12,289	15,092



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	2017	2016
History of experience gains and losses		
Return on Scheme assets	(0.2%)	19.7%
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 (2016: no normal contributions). During the year the Company made no special contributions to the Scheme (2016: £13,567,000).

Since the transition date the cumulative gain recognised through the Statement of Comprehensive Income is £10,383,000 (2016: cumulative gain of £8,351,000).

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 £1,200,208 (2016: £1,200,646) were made to defined contribution schemes.

Group and Company	Pension Scheme surplus £'000	Post employment medical provision £'000
At 1 January 2016	7,247	(413)
Movement in the year	7,845	(137)
At 31 December 2016	15,092	(550)
Movement in the year	(2,803)	(87)
At 31 December 2017	12,289	(637)

Free or discounted medical insurance cover has been provided for retired employees. The provision is the estimated future cost of claims in excess of anticipated premiums. The costs of the cover are taken directly to the Income Statement and the provision required is updated annually. Given the inherent uncertainty in establishing the provision for claims, it is likely that the final outcome will prove to be different to the original liability established. The key assumptions underpinning the post employment medical benefit provision are the net increase of future claims in excess of premiums of 1.6% (2016: 1.6%) and the discount rate of 2.4% (2016: 2.7%). Mortality assumptions are taken from the S1 Light table with CMI 2012 projections and 1.5% pa long term rate of improvement (2016: 1.5% pa long term rate of improvement).

The deferred tax liability of £1,127,000 (2016: £1,107,000) relates to the deficit in the Scheme and provision for post employment medical benefits, and is shown in deferred tax.

18) Commitments and contingent liabilities

	2017		2016	
	Group £'000	Company £'000	Group £'000	Company £'000
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
Within one year	128	54	120	47
Between one and five years	197	180	275	180
After five years	312	340	357	385
	637	574	752	612

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 in note 8, permitting them to be exempt from preparing and filing their accounts at Companies House.

The Parent Company has provided assurance to wholly owned subsidiaries that have a net liability position.

19) Related party disclosures

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.

	2017 £'000	2016 £'000
Transactions in the year:		
Administration charge by WPA Limited	(1,668)	(1,555)
Administration charge to WPA Limited	1,038	969
	(630)	(586)
Balances outstanding:		
Gross receivable by WPA Limited	2,924	113
Gross payable by WPA Limited	(410)	(368)
	2,514	(255)

b) Key management compensation

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

	2017 £'000	2016 £'000
Salary	2,067	1,875
Pension related benefits	292	304
Benefits-in-kind	49	68
Amounts payable under short-term incentive plans	348	298
Amounts payable under long-term incentive plans	148	178
Aggregate emoluments	2,904	2,723

Key management personnel purchased insurance policies on an arm's length basis with premium payments of £681 in the year (2016: £664).

c) Other related parties

The Company leases, on an arm's length basis, a property owned by the WPA Benevolent Foundation, a company limited by guarantee and affiliated to the Group, and paid lease costs in the year of £45,000 (2016: £45,000).

The Company holds investments with a value of £9,933,000 (2016: £8,310,000) 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% (2016: 9%) of the fund.

As a consequence of our investment, Mr Irwin has become a non-executive director as the Company's representative on Proton Partners International Limited's Board.

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.



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continued

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 investments which have a sound track record or management 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 2017 and 2016 were:

Geographical equity exposure	Number of funds	2017 £'000	Number of funds	2016 £'000
UK	3	8,764	3	10,460
Asia	3	13,212	3	13,457
Global	2	8,685	2	6,074
	8	30,661	8	29,991

The principal financial assets held at 31 December 2017 and 2016, analysed by their fair value hierarchy levels were:

		2017 £'000	2016 £'000
Level 1	Forward currency contracts	–	(19)
	Deposits with credit institutions at floating rates	46,268	41,629
Level 2	Collective investment funds	27,051	25,902
Level 3	Collective investment funds	3,610	4,089
	Equity	5,000	5,000
At amortised cost			
	Government issued securities	77,836	81,297
	Deposits with credit institutions at floating rates	–	10,026
	Debt and other fixed income securities	20,380	17,253
		180,145	185,177

Government issued securities, deposits with credit institutions at fixed rates, certain deposits with credit institutions at floating 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, deposits with credit institutions at fixed rates and deposits with credit institutions at floating 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, deposits with credit institutions at floating rates and Government issued securities. The Group has 26 (2016: 39) direct corporate bond holdings and holdings in UK Government stocks and UK and US Treasury. These instruments are intended to be held to maturity and thus these are held at amortised cost totalling £98.2m within these financial statements. The estimated fair value of these instruments is £97.5m.

Reconciliation of Level 3 fair value measurements of financial assets:	Unquoted equities	
	2017	2016
	£'000	£'000
Balance at 1 January	9,089	4,378
Total gains/(losses) recognised	551	(289)
Purchases	150	-
Sales	(1,180)	-
Transfers into Level 3	-	5,000
Balance at 31 December	8,610	9,089

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 observable market data, including net asset values.

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

The level 3 investment funds comprise of holdings in 2 (2016: 2) collective investment schemes, the underlying investments of which contain some unlisted equities and equities listed on secondary markets. Level 3 equity represents a direct investment in unlisted equity. Due to the unlisted status of this investment, there is no readily available market price. It has also been found that there are no additional reliable indicators of fair value for this equity investment based on other relevant information such as observable equity transactions, current net asset value, peer companies that could be used as proxies, general market trend of the issuer's industry and other economic information. In the absence of a reliable indicator for fair value, the equity investment is measured at cost less impairment in line with the requirements of IAS 39 for such financial instruments. An impairment review has been carried out and it has been judged that this equity investment is not impaired at 31 December 2017.

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 £360,000 (2016: £400,000). If all equity values were to fall by 5% this would reduce asset values by £1,780,000 (2016: £1,700,000).

b) Credit risk

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

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

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

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

Note 20 continues overleaf...



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continued

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 a policy of holding cash to meet all requirements for current liabilities.

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.

The following table analyses the financial liabilities of the Group, the majority of which will be settled within twelve months, with £1,287,000 of other creditors settled later than twelve months (2016: £1,408,000). 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.

	2017 £'000	2016 £'000
Creditors arising from direct insurance operations	5,019	5,678
Provision for outstanding claims	9,356	9,564
Other creditors	6,736	6,949
	21,111	22,191

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 £372,000 (2016: £391,000).

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 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 2017 the Group's solvency coverage against the standard formula assessment was 483% (2016: 519%). Further information can be found in the Solvency & Financial Condition Report on our website - wpa.org.uk.

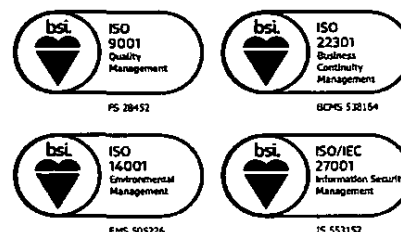
21) Future accounting disclosures

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

IFRS 9	Financial instruments – classification and measurement
IFRS 15	Revenue from contracts with customers
IFRS 16	Leases
IFRS 17	Insurance contracts

The Directors do not expect that the adoption of the standards above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed. An assessment of the impact of IFRS 15 has been carried out in respect of the Group's subsidiaries and no practical change in revenue recognition is expected. The Group is currently assessing the impact of IFRS 17.

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



Western Provident Association Limited

Rivergate House, Blackbrook Park, Taunton, Somerset, TA1 2PE
Telephone: 01823 625000 Facsimile: 01823 623050 Website: wpa.org.uk

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