Parent Report & Accounts for:

WPA PROPERTY SERVICES LIMITED

(Company Number: 11110094)

(Page - 41)

WPA

REPORT & ACCOUNTS

Western Provident Association Limited

2018

WPA

REPORT & ACCOUNTS

for the year ended 31 December 2018

WPA CHAIRMAN'S STATEMENT

I am pleased to report a year of satisfactory progress on all fronts.

Customer numbers continued to grow during 2018, and in turn we benefit from excellent renewal rates that endorse the ethos of the Company, where we always seek to treat our customers as we would hope to be treated ourselves.

We measure every aspect of the service that we deliver and we consistently exceed our own, demanding, benchmarks. This has been the case for many years, but is a considerable achievement for 2018; during the year we completed the complex task of a complete migration to the leading corporate-cloud provider without any interruption to our processes. Transitions such as these are fraught with unforeseen difficulties. Our investment in meticulous planning and testing has paid significant dividends.

During the year we consolidated our Insuretech efforts and achieved a significant further growth in our productivity – in the last three years just short of 17%. We manage our human resources with immense care and all of our gains have been achieved through natural staff turnover. We have some further progress to make, but at a less rapid rate.

Health insurance is perhaps the most complex of all forms of general insurance. In the current International Classification of Diseases from the WHO there are some seventy thousand codes in total with up to ten thousand diagnoses. Combined with differing benefits, principally between corporate and private customers, our Customer Service Officers face considerable challenges in the initial authorisation of every new claim. Our investment in DELOS automatically validates these variables: during 2018 98.4% of claims were authorised at first contact. We have also invested significantly in our Centres of Clinical Excellence whereby a number of specialist, expert teams manage the complex claims pathways following first contact. The complexity of medicine is now accelerating at an unparalleled rate.

An important measure of our commitment to our customers is found in adjudications made against us by the Financial Ombudsman's Service (FOS). In the last 22 years, where we have settled some £2.2bn in claims costs, we have had but 17 complaints against us upheld – one in 2018.

Unlike most insurers we do not measure our progress by virtue of premium increases. Indeed, we devote considerable efforts in assisting our customers to maintain their coverage whilst reducing the premiums, often very considerably. Shared Responsibility – co-payment at a range of pre-selected annual rates – has been most effective, for several years. Especially so for our long-standing older customers who pay the highest premiums – reflecting the inevitable relationship, in all healthcare systems, between advancing years and hospitalisation.

We have also achieved satisfactory performance with the non-technical, capital account.

WPA

We have adopted a very low risk-appetite over the last three years in our anticipation of significant political and economic turbulence. In turn we have achieved our goal of rate of return in excess of CPI. At the year-end our cumulative performance for 2018 was well in excess of every major domestic and international index.

We benefit from a strong balance sheet, reflecting our status as an independent insurer. We therefore see no good reason in the months ahead to increase significantly our risk-appetite.

Perhaps the greatest business risk, especially for firms in financial services, is that of cyber-crime. We devote significant resources to the protection of our customers and the business from cyber-attacks. We are well-accredited in this task by virtue of our BS:ISO 27001 certification for information risk management processes. In turn we have built sophisticated, layered defences to protect against intrusion. We also measure ourselves against best practice and draw useful guidance from the NCSC. We established a new Board Committee – The Security Advisory Committee – at the end of 2018 and as a result benefit from the very highest levels of external, independent advice. No connected organisation can be immune from penetration, but we have put in place sound defences, in depth, that are kept under constant review.

I am delighted to welcome Mr Jasper Gill FRCS as a new Non-Executive Director. Mr Gill is a highly respected practising surgeon specialising in breast cancer – the most common cancer in the UK and in turn in our own claims experience.

This Company has absolute clarity of purpose from which we have not wavered. This is supported by meticulous strategic planning over different time thresholds. Our investment in Insuretech, a strategic imperative, now drives almost all of our underlying processes. In addition to being self-financing through advances in productivity, the technology has delivered a much-improved experience for our customers. From first contact we can authorise claims with certainty that was simply not possible five or so years ago.

The years ahead hold many challenges; perhaps the most significant will arise from advances in genomics, both in the form of biologic drugs and, significantly, cell reprogramming. We sense that despite the discoveries that have already been made the scientific community remains at the threshold of this new field of medicine. How treatment might be funded equitably by the state, let alone through insurance, remains to be seen.

I thank the staff of WPA for their efforts and commitment throughout the year. We look forward to 2019 with confidence, despite the short-term political unpredictability.

Cromer

The Rt Hon The Earl of Cromer
19 March 2019

STRATEGIC REPORT

for the year ended 31 December 2018

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 2018.

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 customers and we aim to break-even on our customer relationships in the medium-term.

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

Review of 2018

2018 has proven a successful year, with the Association demonstrating its credentials as a healthy vibrant business. During 2018 we authorised 98.4% (2017: 98.7%) of all properly presented claims, and in volume paid 4.3% more than the previous year.

We believe this demonstrates our philosophy of looking after our customers. We are not pre-occupied with acquiring new customers, with offers of gadgets or shopping vouchers, but instead are discerning as to our underwriting approach. By being selective as to who joins the Association, coupled with our proprietary intelligent automated claims assessment system – Delos – we are able to process all claims with quality, accuracy and certainty.

Our customer service ethos is also evident in our FOS record, with only 9 FOS adverse adjudications in the last 10 years. We receive 70% less complaints per 1,000 customers than the medical insurance industry average.

The financial results of the business remain sound. Top line premium income increased marginally as did underlying customer numbers. The key performance indicator of like-for-like premium income, assuming all healthcare administration and corporate deductible contracts were fully insured increased at a similar rate. The financial results of the Association are intertwined with the health of our customers and during 2018 the severity of the medical conditions experienced by our customers was on average at lower cost and explains the lower than forecast claims ratio of 74.1% (2017: 78.6%). Productivity improvements enabled administrative expenses to be managed in line with inflation. Overall the insurance and healthcare administration business reported an underlying profit before tax of £4.5m. (2017: £0.4m).

The investment portfolio has had a satisfactory year returning 2.9% (2017: 1.3%) – marginally ahead of its target of inflation, thus maintaining the real value of the portfolio. We maintain our commitment to hold UK Government stock to back our ORSA. The portfolio remains very defensively positioned, with 76% in cash and UK Government stock and the remaining 24% in return-seeking assets, mainly corporate bonds and strategic long-term equity holdings. Over the last few years we have progressively reduced the equity content of the portfolio, as worldwide equity markets appeared to overheat, an approach that has avoided the double-digit negative returns that would have been experienced in 2018.

Regulatory capital coverage remains strong at 6.2 times the Solvency Capital Requirement (2017: 4.8 times).

Future outlook

The economic outlook for the UK will continue to be the subject of endless debate in light of the United Kingdom's impending departure from the European Union. Whilst we are not immune from adverse macroeconomic conditions we are not overly concerned with the nature of the withdrawal. We are a specialist health insurer operating exclusively in the UK and are not reliant on EU suppliers or customers. All of our policies offer customers options to reduce their premiums, thus enabling them to continue with their healthcare in the event that they need to reconfigure their cost of cover. Similarly, we have options available for employers or individuals who want to expand their level of cover. With record low unemployment and changes to the UK's labour market, private health insurance will remain a valuable employment benefit and effective staff retention tool.

Strategic Report

continued

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 Plc (Protocol) is an administration fee. It makes no sense to combine these by straight addition (the statutory basis) since that gives no realistic measure of how the overall business is growing. However, by adding all payments made on behalf of Corporate Deductible and Protocol customers together with premiums and Protocol's administration income we arrive at a meaningful like-for-like gross revenue figure across the Group.

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

	2018	2017	
Gross revenues (like-for-like)	£167.3m	£163.8m	Premiums, plus claims for Corporate Deductible and Protocol clients plus Protocol administration income.
Combined operating ratio	96.8%	99.5%	Ratio of claims, commissions and expenses (excluding Corporate Social Responsibility donations) to premiums.
Solvency II SCR coverage (unaudited)	6.2	4.8	Available regulatory capital divided by standard formula assessment.
Net investment return	2.9%	1.3%	Return as a percentage of portfolio value, net of fees.
Claims authorised	98.4%	98.7%	Percentage of properly presented claims authorised.

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

Board of Directors
The members of the Board who served during the year are shown on page 13.

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.

Operational risk. The business is exposed to a variety of operational risks in respect of systems, premises and people, including the risk of cyber-attack. To the extent possible the Board has sought independent assurance over the robustness of the operational practices. Such assurances include Cyber Essentials Plus and the following ISO accreditations: 9001 Quality Management, 27001 Information Security Management, 22301 Business Continuity Management, 14001 Environmental Management. The Group administers bank accounts on behalf of our Corporate Deductible and Protocol customers, for the purpose of claims settlement. The customer retains the economic benefit of the balance of the bank accounts, as such the balances of these bank accounts are not recognised on the Group's financial statements. The Group annually commissions an International Standards for Assurance Engagements Service Auditor Report (ISAE 3402) on the procedures undertaken on behalf of our large corporate customers. We have well established and regularly tested business continuity plans that ensure we can continue to serve our customers in the face of adverse events. For example, the Group has sole occupancy of a dedicated business continuity site which, coupled with a resilient IT platform, ensures continued operation in the event of an incident at the primary site in Taunton.

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

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

Currency risk. The Group has exposure to worldwide currencies as a result of collective investment schemes with international holdings. The primary exposure is to the impact of US Dollar rates on global equity holdings coupled with the Dollar exchange rate by virtue of US cash 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.

Pension risk. The Pension Scheme has a fully implemented Liability Driven Investment strategy. This has eliminated all market risk and immunised the Scheme against future deficits 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 £146.9m (2017: £149.9m) 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
19 March 2019

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 2018 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.

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

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

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

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

Signed on behalf of the Board

Nathan Irwin
Chief Financial Officer
19 March 2019

Corporate Governance

for the year ended 31 December 2018

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 business.

The Board has a formal Code of Conduct and schedule of matters specifically reserved to it, which can only be amended by the Board itself and which is reviewed annually. The structure and composition of the Board is kept under review and the Board 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 Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) as a general insurer. The Board and senior management are regularly briefed on existing and proposed regulation. The Company routinely monitors its compliance with regulatory requirements at all levels and reports the findings formally to the Audit and Risk Committees.

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 financial performance both against the approved business plan and by comparison with the previous year and reporting on investment performance, liquidity and solvency.

The Board committees are set out on pages 10 to 12 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.

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 comfortably maintain the Group's capital 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, further training and regular assessments of all employees.

The Committee reviews human resource strategies and practices for compliance with current employment legislation, to ensure structured training in both business specific skills and, where appropriate, personal development.

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 and also take account of the performance of the Group as a whole.

Risk Committee
The Risk 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 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.

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

Risk Management
The Board and senior management are responsible for the identification and evaluation of key risks applicable to the Group, whether from internal or external sources. The assessment of risk is kept under regular review by the Risk Committee and includes strategic and corporate issues, insurance, operations, financial (including market, credit and liquidity), pensions, Group and other risks related to the achievement of the Group's business objectives.

The implementation and management of the internal control and risk management programme 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 and risk management is appropriate for the Group's needs.

Board of Directors & Principal Officers

for the year ended 31 December 2018

Vice President	Nigel Blackwell
Vice President	Michael Foden
	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	John Chester
	Jasper Gill (appointed 22 February 2019)
	Henry Kenyon
	Martin Kramer
	Robert Lee
	John Pugh – Senior Independent Non-Executive
	Rachel Riley (resigned 23 March 2018)

Company Secretary

Nicola Royle

Directors and Officers of subsidiaries not listed above

Kimberley Bell
Brian Goodman
Neville Kavarana
Russell Moore (appointed 7 August 2018)
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 Jasper Gill FRCS MBA Martin Grover FRCS
Personnel Committee	Tracy Sheen MA FCIPD - Chairman Neil Davidson ACMA CMIIA Andrew Haworth LLB Nathan Irwin FCA Lady Merrison 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
Security Advisory Committee	Henry Kenyon FCA - Chairman

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Western Provident Association Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 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 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 statement of accounting policies; and
- the related notes 1 to 22 excluding the capital risk management disclosures in note 20.3 calculated in accordance with the Solvency II regime which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Insurance reserving • Valuation of unlisted investments Within this report, any new key audit matters are identified with (^) and any key audit matters which are the same as the prior year identified with (>).
Materiality	The materiality that we used for the group financial statements was £1,227k 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.
Significant changes in our approach	There have been no significant changes to our audit approach.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

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

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

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

Insurance reserving	
Key audit matter description	Insurance reserving is the most significant area of management estimate within the group's financial statements. Our key areas of focus were: 1. Appropriateness of the reserving model: There is a risk that changes to WPA's book of business result in the model no longer calculating reserves completely and accurately. 2. Mechanical accuracy of data input and calculation for large corporate reserving: The calculation is mechanical and complex due to the use of multiple reports from the policy and claims administration system and the bespoke nature of the contracts. Claims reserves include an incurred but not reported amount of £9.5m at the end of 2018 compared to £9.7m at the end of the previous period. This key audit matter is referred to by the Board in their Strategic Report, section III of the financial statements on significant judgements and estimates and the insurance risk management note 20.2.
How the scope of our audit responded to the key audit matter	**Appropriateness of the reserving model** We evaluated the design and implementation of key internal controls regarding this key audit matter. 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. Given the short-tailed nature of the group's insurance risk we analysed the run-off of the 2018 reserve post year-end to assess if the run-off curve is in line with expectation. We analysed potential changes to the group's book, risk exposure and recent claims trends to determine if a change in the reserving model was required as a result of this. We tested the mechanical accuracy of calculations and formulas through re-performance using our IT specialists to assist in testing the completeness and accuracy of the key underlying data used in reserving where appropriate.

WPA

How the scope of our audit responded to the key audit matter (continued)	**Mechanical accuracy of data input and calculation for large corporate reserving** We evaluated the design and implementation of key internal controls regarding this key audit matter. We performed tests of detail for a sample of large corporate customers included in the reserving calculations and related manual data entries back to supporting contractual information. We performed analytics on the model that management use in the calculation for the large corporate reserve to assess for consistency and accuracy given its inherent complexity. Where appropriate, we tested the completeness and accuracy of the key underlying data used in the reserving calculation.
Key observations	Overall we are satisfied that the reserving model, which has been consistently applied with the prior year, is appropriate for the size and complexity of the group's insurance risk. Based on the work performed we concluded that the mechanical accuracy of data input and calculation for large corporate reserving is appropriate.
Valuation of unlisted investments (>)	
Key audit matter description	The group holds an unlisted equity investment of £10m (2017: £5m) in a start-up company. This increased valuation is due to fair value gains during the year. Management made a judgement around the fair-value measurement of this investment. 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. This key audit matter is referred to by the Board in their Strategic Report, section III of the financial statements on significant judgements and estimates and the financial risk management note 20.1a).

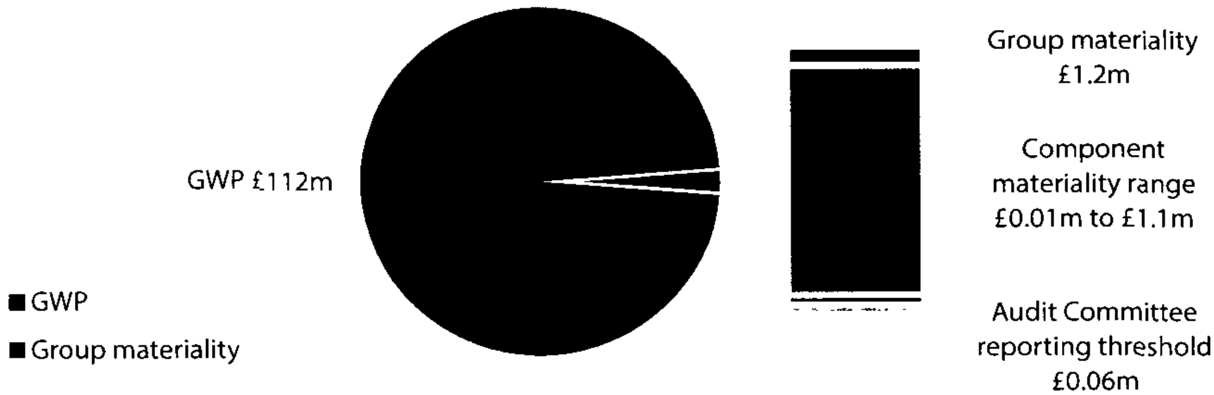
How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation of key internal controls regarding the valuation of the investment. We have reviewed management's judgement paper on the proposed valuation approach for this investment. We engaged the assistance of our financial instruments specialists, to independently test the approach to valuing the unlisted investment under IAS 39 and IFRS 13. We have evaluated whether the unlisted investment would need to be held at a value different to management's valuation, taking into account suitable external sources available to inform the share price of the investment as at 31 December 2018. This included agreeing the latest share issue price to Companies House records and review of the latest available audited financial statements of the investment. 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. 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.
Key observations	Overall we found management's approach to value the unlisted investment at fair-value appropriate. 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 2018. We have found the disclosures in section III of the financial statements and note 20.1a) to be in line with the judgements and estimates made by management.

Our application of materiality

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	£1,227k (2017: £1,253k)	£1,116k (2017: £1,240k)
Basis for determining materiality	1.10% of Gross Written Premium (2017: 1.14% of Gross Written Premium)	1.05% of Gross Written Premiums (2017: 1.12% of Gross Written Premium)
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 £61k (2017: £63k), 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 £1,166k. Audit work to respond to the risks of material misstatement was performed by the Group audit engagement team.

The Group Engagement Partner is also the Audit Partner for the group's UK trading subsidiaries. The Group has a subsidiary in India which has a non-coterminous year-end. As this subsidiary is not significant to the group audit we have performed analytical procedures, rolling forward the latest audited financial statements for the March 2018 year-end.

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

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.

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

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

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

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, financial instruments and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas:
    - Insurance reserving; and
    - Valuation of unlisted investments

- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, pension legislation, tax legislation. In addition, compliance with regulatory and solvency requirements are fundamental to the group's ability to continue as a going concern.

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

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

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

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

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.

WPA

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 six years, covering the years ending 31 December 2013 to 31 December 2018.

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

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

Use of our report

This report is made solely to the 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.

Simon Cleveland

Simon Cleveland FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
19 March 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Net insurance premium	II(a)				
– Premium receivable	1(a)	111,591		110,991	
– Change in unearned premium provision		(256)		(1,043)	
Premium arising from insurance contracts issued	1(a)		111,335		109,948
– Reinsurance premium payable	1(a)	(3,107)		(3,763)	
– Change in unearned premium provision, reinsurers' share	1(a)	(11)		655	
Premium ceded to reinsurers on insurance contracts issued	1(a)		(3,118)		(3,108)
Net insurance premium			108,217		106,840
Administration income	2		2,099		1,990
Net insurance and administration income			110,316		108,830
Investment return	3		5,693		2,907
Total income			116,009		111,737
Net insurance claims	II(d)				
Claims paid Gross amount	1(b)	(82,759)		(86,798)	
Less reinsurers' share	1(b)	2,809		2,646	
Net claims paid	1(b)		(79,950)		(84,152)
Change in the net provision for claims	1(b)		(186)		208
Net insurance claims			(80,136)		(83,944)
Operating and administrative expenses	4(a)		(25,436)		(24,525)
Exceptional items in relation to the pension scheme	17		(652)		(1,162)
Investment management expenses			(155)		(85)
Corporate Social Responsibility donations	4(b)		(255)		(6)
Total expenses			(106,634)		(109,722)
Profit on ordinary activities before tax	5		9,375		2,015
Tax on profit on ordinary activities	6		(1,848)		(300)
Profit for the financial year			7,527		1,715

 The notes on pages 31 to 58 form part of these accounts

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		7,527	1,715
Post employment actuarial gain/(loss), net of tax	17	1,151	(1,774)
Currency translation differences, net of tax		0	(2)
Total comprehensive income/(loss) for the year		8,678	(61)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Note	Retained earnings £'000	Currency translation differences £'000	Reserves £'000
At 1 January 2017		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
Adjustment for IFRS 15	II(a)	(103)	–	(103)
Revised balance at 1 January 2018		183,249	(49)	183,200
Profit for the year		7,527	–	7,527
Other comprehensive income				
– Post employment actuarial gain, net of tax	17	1,151	–	1,151
– Currency translation differences, net of tax		–	0	0
At 31 December 2018		191,927	(49)	191,878

Consolidated Statement of Financial Position

as at 31 December 2018

Assets	Note	2018 £'000	2017 £'000
Post employment benefits	17	13,307	12,289
Intangible assets	9	892	898
Property, plant and equipment	10	4,946	5,121
Investment property	11	2,712	2,438
Deferred acquisition costs		4,226	4,648
Financial assets	12	190,510	180,145
Loans and other receivables			
– Debtors arising out of direct insurance operations	13	39,254	37,708
– Corporation tax recoverable		–	1,671
– Other debtors		392	523
– Prepayments and accrued income		1,094	892
Cash and cash equivalents		7,186	7,030
Total assets		264,519	253,363
Liabilities			
Reserves		191,878	183,303
Post employment benefits	17	634	637
Insurance liabilities			
– Provision for unearned premiums	1(a)	47,695	47,428
– Claims outstanding	1(b)	9,542	9,356
Deferred tax	7	1,473	884
Trade and other payables			
– Payables arising out of direct insurance operations		5,447	5,019
– Other creditors		7,014	6,736
– Current tax liabilities		836	–
Total equity and liabilities		264,519	253,363

 The notes on pages 31 to 58 form part of these accounts

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from/(used by) operations	14	7,091	(2,048)
Net tax recovered		1,013	45
Net (withdrawals)/receipts from financial assets		(6,723)	6,968
Net payments for investment property		(274)	(2,438)
Net cash from operating activities		1,107	2,527
Cash flows from investing activities			
Purchase of intangible fixed asset		(861)	(987)
Purchases of property, plant and equipment		(128)	(227)
Proceeds from sales of property, plant and equipment		38	2
Net cash used in investing activities		(951)	(1,212)
Net increase in cash and cash equivalents		156	1,315
Cash and cash equivalents at beginning of year		7,030	5,717
Currency translation differences		0	(2)
Cash and cash equivalents at end of year		7,186	7,030

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

Assets	Note	2018 £'000	2017 £'000
Post employment benefits	17	13,307	12,289
Investments in group undertakings	8	934	934
Intangible assets	9	892	898
Property, plant and equipment	10	4,894	5,048
Deferred acquisition costs		4,226	4,618
Financial assets	12	190,510	180,145
Loans and other receivables			
– Debtors arising out of direct insurance operations	13	39,254	37,708
– Amounts owed by Group undertakings		2,965	2,515
– Corporation tax recoverable		–	1,577
– Other debtors		1	1
– Prepayments and accrued income		1,012	838
Cash and cash equivalents		2,449	4,028
Total assets		260,444	250,629

Liabilities	Note	2018 £'000	2017 £'000
Reserves		188,781	181,021
Post employment benefits	17	634	637
Insurance liabilities			
– Provision for unearned premiums	1(a)	47,695	47,428
– Claims outstanding	1(b)	9,542	9,356
Deferred tax	7	1,473	884
Trade and other payables			
– Payables arising out of direct insurance operations		5,447	5,019
– Other creditors		6,098	6,284
– Current tax liabilities		774	-
Total equity and liabilities		260,444	250,629

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

The accounts on pages 25 to 58 were approved by the Board of Directors on 19 March 2019 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 31 to 58 form part of these accounts

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

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for the year ended 31 December 2018

	Note	Retained earnings £'000	Currency translation differences £'000	Reserves £'000
At 1 January 2017		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
Profit for the year		6,609	-	6,609
Other comprehensive income				
– Post employment actuarial gain, net of tax	17	1,151	-	1,151
At 31 December 2018		188,781	-	188,781

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from/(used by) operations	14	4,956	(4,846)
Net tax recovered		1,144	145
Net (withdrawals)/receipts from financial assets		(6,723)	6,968
Net cash from operating activities		(623)	2,267
Cash flows from investing activities			
Purchase of intangible fixed assets		(861)	(987)
Purchases of property, plant and equipment		(133)	(204)
Proceeds from sales of property, plant and equipment		38	2
Net cash used in investing activities		(956)	(1,189)
Net (decrease)/increase in cash and cash equivalents		(1,579)	1,078
Cash and cash equivalents at beginning of year		4,028	2,950
Cash and cash equivalents at end of year		2,449	4,028

ACCOUNTING POLICIES

for the year ended 31 December 2018

I. Basis of presentation

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

II. Basis of accounting

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

The consolidated accounts incorporate the accounts of the Company and its subsidiaries, drawn up to 31 December 2018. Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group. The principal accounting policies are set out below.

(a) Income

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

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

In the current year, the Group has transitioned to IFRS 15 'Revenue from contracts with customers', which establishes a principles based approach for revenue recognition and uses the concept of recognising revenue when, or as, performance obligations are satisfied and the control of goods and services is transferred. The adoption has resulted in a change to the timing of revenue recognition for the administrative income generated by WPA Protocol Plc.

The Group has applied the cumulative effect method for the transition and therefore previous periods are not restated.

There is no impact on the Parent Company financial statements; the impact on the Group financial statements is shown in the table below.

Consolidated income statement	2018 £'000	2017 £'000
Administrative income		
Under previous standard	2,083	1,990
Under IFRS 15	2,099	1,979
Impact of adoption of IFRS 15	16	(11)

The impact of taxation would be the adjustment to profit on ordinary activities before tax at the prevailing rate of taxation; 19% in the current yet (2017: 19.25%).

Consolidated statement of financial position	2018 £'000	2017 £'000
Reserves		
Under previous standard	191,968	183,303
Under IFRS 15	191,878	183,200
Impact of adoption of IFRS 15	(90)	(103)
Other creditors		
Under previous standard	6,924	6,736
Under IFRS 15	7,014	6,839
Impact of adoption of IFRS 15	90	103

Consolidated statement of changes in equity	2018 £'000	2017 £'000
Profit for the year		
Under previous standard	7,511	1,715
Under IFRS 15	7,527	1,704
Impact of adoption of IFRS 15	16	(11)

(b) Acquisition costs

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

(c) Unexpired risks

Provision is made for unexpired risks if claims, related expenses and deferred acquisition costs are expected to exceed unearned premium after taking into account future investment income on the unearned premium. No such provision is required at the balance sheet date (2017 nil).

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

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

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

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

Provision for direct and indirect expenses in settling claims is calculated by applying the proportion of claims outstanding to total claims paid during the year to the total claims handling costs incurred. The provision for outstanding claims is calculated gross of any anticipated reinsurance recoveries.

Amounts recoverable from reinsurers are recognised on a consistent basis as per the gross underwritten risk. Amounts notified to reinsurers are included within reinsurance debtors. Amounts expected to be recoverable from insurers in respect of claims incurred but not reported are included in reinsurance claims outstanding.

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

(f) Operating leases
Costs in respect of operating leases are charged to the Income Statement as incurred.

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

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

Fair value through profit and loss assets that are traded in an active market are valued at bid price on the last stock exchange trading day of the year. The fair value of other financial assets for which there is no quoted market price is determined by a variety of methods including net asset values provided by fund administrators. Directly held unlisted equities are valued at the latest traded price or at cost less impairment in line with the requirements of IAS 39 when there is no reliable indicator for fair value, such as a readily available market price, observable equity transactions, current net asset value, peer companies that could be used as proxies, general market trends of the issuer's industry or other economic information. 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 for the Parent Company, investments in group undertakings are stated at cost or at deemed cost, less allowance for impairment, for those held at the date of transition to IFRS. Where a subsidiary undertaking Statement of Financial Position reports a net liability position, provision is made against any inter-company balances due only to the extent that they are deemed irrecoverable.

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

(k) Intangible assets
Intangible assets are capitalised and amortised by equal annual instalments over their estimated useful lives, which for software assets is two years, less allowances for impairment. Internally generated software assets comprise all directly attributable costs necessary to enable the asset to be used within the business.

(l) Property, plant and equipment
All properties held at the balance sheet date that are not treated as investment property are occupied by the Company and other Group companies. The properties are held as freehold or with a leasehold interest and are revalued annually. Increases in the carrying amount, greater than the value at the

transition date, arising on revaluation of land and buildings are credited to the revaluation surplus in reserves. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other changes in carrying value are charged to the Income Statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the Income Statement and depreciation based on the asset's original cost, net of any related deferred income tax, is transferred from the revaluation surplus to retained earnings. It is the Group's practice to maintain these properties to a high standard with the costs of maintenance charged to the Income Statement.

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

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

(m) Investment property

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

(n) Tax

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

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

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

(o) Post employment benefits

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

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

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

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

III. Significant estimates and judgements

(a) *Estimates*

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

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

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

The fair value of the investment properties held by the Group was determined using methodology based on recent market transactions of similar properties which have been adjusted for the specific characteristics of the properties. The value of investment property is deemed to be cost if the fair value cannot be reliably determined due to being under construction. The valuation techniques include inputs for the investment properties that are unobservable.

Directly held unlisted equities are valued at the latest traded price which transacted in both December 2018 and January 2019.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2018

1) Disclosures for insurance contracts

(a) Movement in unearned premiums

	2018 £'000 Gross	Reinsurance	Net	2017 £'000		
Balance at 1 January	48,236	(808)	47,428	47,193	(153)	47,040
Premiums written in the year	111,591	(3,107)	108,484	110,991	(3,763)	107,228
Premiums earned during the year	(111,335)	3,118	(108,217)	(109,948)	3,108	(106,840)
Balance at 31 December	48,492	(797)	47,695	48,236	(808)	47,428

(b) Movement in claims outstanding

	2018 £'000 Gross	Reinsurance	Net	2017 £'000		
Balance at 1 January	9,504	(148)	9,356	9,764	(200)	9,564
Movement in claims incurred in prior years	(1,247)	–	(1,247)	(73)	–	(73)
Claims incurred in the current year	84,234	(2,851)	81,383	86,611	(2,594)	84,017
Claims paid during the year	(82,759)	2,809	(79,950)	(86,798)	2,646	(84,152)
Balance at 31 December	9,732	(190)	9,542	9,504	(148)	9,356

(c) Movement in deferred acquisition costs	2018 £'000	2017 £'000
Balance at 1 January	4,648	4,535
Movement in the year	(422)	113
Balance at 31 December	4,226	4,648

2) Other income

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

3) Investment return	2018 £'000	2017 £'000
Dividend income	383	193
Interest received	1,388	978
Losses on exchange rate movements	(387)	(1,212)
	1,384	(41)
Net gains on realisation of investments	380	621
Unrealised investment gains	3,642	1,936
Net interest on pension scheme	287	391
	5,693	2,907

WPA

4) Net operating expenses (a) Other operating and administrative expenses	2018 £'000	2017 £'000
Acquisition costs	10,803	10,729
Change in deferred acquisition costs	422	(113)
Administrative expenses	20,091	19,684
FSCS levy	331	220
Gross operating expenses	31,647	30,520
Claims handling expenses	(6,211)	(5,995)
	25,436	24,525

(b) Corporate Social Responsibility donations	2018 £'000	2017 £'000
Donations to the WPA Benevolent Foundation Limited	250	-
Donations to charitable activities	5	6
Total donations to benevolent and charitable activities	255	6

5) Profit on ordinary activities before tax		2018 £'000	2017 £'000
Profit on ordinary activities before tax is stated after			
Property revaluation surplus		98	98
Amortisation		(867)	(562)
Depreciation on property, plant and equipment		(372)	(419)
Profit on disposal of property, plant and equipment		9	
Auditor remuneration for			
Audit (Company £130,000 [illegible])		(148)	(134)
Audit related assurance services	– UK regulatory compliance	-	(36)
Other assurance work	– other services	(32)	(35)
Operating lease costs		(127)	(128)

6) Tax (a) Analysis of charge in year	2018 £'000	2017 £'000
UK corporation tax at 19 00% [illegible]	1,355	
Adjustment for prior periods	105	(601)
	1,460	(601)
Overseas tax	34	34
Total current tax	1,494	(567)
Deferred tax (note 7)		
Origination and reversal of timing differences	(102)	487
Movement on post employment benefits	456	380
Total deferred tax	354	867
Tax charge for the current year	1,848	300

The principal rate of UK corporation tax was 19% for the financial year 2018

Note 6 continues overleaf..

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

	2018 £'000	2017 £'000
Profit before tax	9,375	2 015
Notional charge at UK corporation tax rate of 19 00%	1,781	388
Franked investment income not taxable	(73)	(37)
Permanent timing differences	120	26
Items outside the scope of UK tax	(13)	(18)
Tax relating to overseas subsidiaries	34	34
Changes in tax rates	(43)	(42)
Adjustment to prior periods' tax	105	(601)
Deferred tax prior year	(63)	550
Tax on profit on ordinary activities	1,848	300

(c) Factors that may affect future tax charges

The principal rate of UK corporation tax was 19% for the financial year 2018 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

		2018 £'000			2017 £'000	
	Before tax	Tax credit	After tax	Before tax	Tax credit	After tax
Currency translation differences	–	–	–	(2)	–	(2)
Movement on pension scheme (note 17)	1,386	(235)	1,151	(2,032)	345	(1,687)
Other comprehensive income	1,386	(235)	1,151	(2,034)	345	(1,689)

All tax credits relate to deferred tax

7) Deferred tax

Group	Pension scheme	Trading losses	Post employment medical benefits	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	(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)
Movement in provision recognised in Income Statement	(456)	(43)	(1)	146	(354)
Movement in provision recognised in other comprehensive income	(235)	–	–	–	(235)
At 31 December 2018	(1,926)	97	107	249	(1,473)

Company

Company	Pension scheme	Trading losses	Post employment medical benefits	Other	Total
At 1 January 2017	(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)
Movement in provision recognised in Income Statement	(456)	(43)	(1)	146	(354)
Movement in provision recognised in other comprehensive income	(235)	–	–	–	(235)
At 31 December 2018	(1,926)	97	107	249	(1,473)

If the freehold property was sold at its current market value there would be a capital loss of £4,900,000 There is a deferred tax asset of £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	**2018**	2017
	£'000	£'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 Rivergate House, Blackbrook Park, Taunton, Somerset, TA1 2PE, under the number shown against each one and has capital comprising £1 ordinary shares in issue, except where shown otherwise

WPA Healthcare Practice PLC (capital comprising £5 ordinary shares in issue)	– Insurance intermediary company (No 07320330)
WPA Investments Limited	– Investment company (No 02591944)
WPA Protocol Plc	– Claims and administration services company (No 02755175)
WPA World Class Service (India) Private Ltd* (a company registered in India with capital comprising INR10 ordinary shares)	– Data processing company
WPA Health Trustee Limited	– Trustee company (No 04562414)
WPA Pension Trustees Limited	– Trustee company (No 04710981)
Delos IT Solutions Limited	– Dormant company (No 10458139)
Self-Pay Limited	– Dormant company (No 04174987)
Stoploss Insurance Services Limited	– Dormant company (No 03831968)
WPA Insurance Services Limited	– Dormant company (No 02593389)
WPA Investments (Development) Limited	– Dormant company (No 02593390)
WPA Property Services Limited (incorporated 13 December 2017)	– Dormant company (No 11110094)
XS Health Limited	– Dormant company (No 03926481)
XS Insurance Services Limited	– Dormant company (No 03783854)

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

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

Group	Software £'000	Total £'000
Cost or valuation		
At 1 January 2017	631	631
Additions	987	987
At 31 December 2017	1,618	1,618
Additions	**861**	**861**
At 31 December 2018	2,479	2,479
Amortisation		
At 1 January 2017	158	158
Provided in the year	562	562
At 31 December 2017	720	720
Provided in the year	**867**	**867**
At 31 December 2018	1,587	1,587
Net book value at 31 December 2017	898	898
Net book value at 31 December 2018	892	892

Company	Software £'000	Total £'000
Cost or valuation		
At 1 January 2017	631	631
Additions	987	987
At 31 December 2017	1,618	1,618
Additions	**861**	**861**
At 31 December 2018	2,479	2,479
Amortisation		
At 1 January 2017	158	158
Provided in the year	562	562
At 31 December 2017	720	720
Provided in the year	**867**	**867**
At 31 December 2018	1,587	1,587
Net book value at 31 December 2017	898	898
Net book value at 31 December 2018	892	892

Amortisation is shown in operating and administrative expenses

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 2017	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
Additions	–	15	20	93	128
Disposals	–	(2)	(21)	(69)	(92)
Revaluation	98	–	–	–	98
At 31 December 2018	5,116	2,200	3,022	487	10,825
Depreciation					
At 1 January 2017	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
Provided in the year	98	134	46	94	372
Elimination in respect of disposals	–	–	(20)	(43)	(63)
At 31 December 2018	682	1,941	2,959	297	5,879
Net book value at 31 December 2017	4,434	380	90	217	5,121
Net book value at 31 December 2018	4,434	259	63	190	4,946

Note 10 continues on opposite page ..

Company	Freehold property £'000	Furniture & fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2017	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
Additions	–	20	19	94	133
Disposals	–	(3)	(21)	(69)	(93)
Revaluation	98	–	–	–	98
At 31 December 2018	5,101	2,005	2,882	453	10,441
Depreciation					
At 1 January 2017	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
Provided in the year	98	113	54	90	355
Elimination in respect of disposals	–	–	(20)	(43)	(63)
At 31 December 2018	682	1,755	2,831	279	5,547
Net book value at 31 December 2017	4,419	346	87	196	5,048
Net book value at 31 December 2018	4,419	250	51	174	4,894

The properties were valued on 31 December 2017 and 2018 at open market value for existing use by the Directors of the Company The fair value of the properties was determined using a methodology based on recent market transactions of similar properties, which have been adjusted for the specific characteristics of the properties held by the Group If the properties had not been revalued they would have been included at the historical cost of £9,402,000 and cost less depreciation of £4,390,000 [illegible]

The Level 3 fair value measurement used for properties are those derived from a valuation technique that include inputs for the asset that are unobservable A 5% increase in market value would result in an increase of £221,000

Depreciation is shown in operating and administrative expenses

11) Investment property

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

In 2017 WPA Investments Limited purchased a property, located in Taunton The property is being refurbished, with significant capital expenditure expected in 2019, before being leased and, as such, is held as an investment property The fair value of the property is deemed to be cost as it cannot be reliably determined due to being under construction

It is intended that investment property will be valued annually by the Directors or by independent valuation specialists Investment property is categorised as level three within the fair value hierarchy

Group	2018 £'000	2017 £'000
At 1 January	2,438	-
Additions through acquisition	–	2,438
Additions through expenditure	274	–
Disposals	–	–
Movement in fair value	–	–
At 31 December	2,712	2,438

12) Financial assets

Group and Company	Carrying value 2018 £'000	Carrying value 2017 £'000
Fair value through profit and loss		
Equity	10,000	5,000
Collective investment funds	16,731	30,661
Forward currency contract	0	–
Deposits with credit institutions at floating rates	36,439	46,268
Held to maturity		
Government issued securities	107,916	77,836
Debt and other fixed income securities	19,424	20,380
	190,510	180,145

A forward currency contract was taken out during the year to hedge against part of the exposure to US Dollars in the investment portfolio The forward contract had nil value as at 31 December 2018

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13) Debtors arising from direct insurance operations

As at 31 December 2018 premium due but not received amounted to £889,000 A provision for impairment of £47,000 was made as at 31 December 2018 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 £106,000 is maintained to recognise that some contracts are cancelled after renewal documentation has been issued All debtors are due within twelve months. A number of policies are sold via intermediaries but all premiums are payable directly to the Company

Group and Company	2018 £'000	2017 £'000
Premium due	889	1,052
Premium not yet due	38,518	36,787
Allowance for bad and doubtful debts	(153)	(131)
	39,254	37,708

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

Group and Company	2018 £'000	2017 £'000
At 1 January	131	407
– Amounts charged/(credited) to Income Statement	128	(234)
– Amounts written off	(106)	(42)
At 31 December	153	131

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**	**2018** **£'000**	**2017** **£'000**
Profit before tax	9,375	2,015
Adjustments for		
– Amortisation	867	562
– Depreciation	372	419
– Profit on disposal of property, plant and equipment	(9)	–
– Pension scheme exceptional items	652	1,162
– Net interest on pension scheme	(287)	(391)
– Increase on revaluation of property, plant and equipment	(98)	(98)
– Decrease/(increase) in deferred acquisition costs	422	(113)
– Unrealised investment gains	(3,642)	(1,936)
Operational cash flows before movements in working capital	7,652	1,620
Increase in debtors arising out of direct insurance operations	(1,546)	(2,457)
Decrease/(increase) in other debtors	131	(434)
Increase in prepayments and accrued income	(202)	(85)
Increase in insurance liabilities	453	180
Increase/(decrease) in payables arising out of direct insurance operations	428	(659)
Increase/(decrease) in other creditors	175	(213)
Cash generated from/(used by) operations	7,091	(2,048)

Company	**2018** **£'000**	**2017** **£'000**
Profit before tax	8,170	1,661
Adjustments for		
– Amortisation	867	562
– Depreciation	355	417
– Profit on disposal of property, plant and equipment	(8)	–
– Pension scheme exceptional items	652	1,162
– Net interest on pension scheme	(287)	(391)
– Increase on revaluation of property, plant and equipment	(98)	(98)
– Decrease/(increase) in deferred acquisition costs	422	(113)
– Unrealised investment gains	(3,642)	(1,936)
Operational cash flows before movements in working capital	6,431	1,264
Increase in debtors arising out of direct insurance operations	(1,546)	(2,457)
Increase in amounts owed by Group undertakings	(450)	(2,515)
Increase in prepayments and accrued income	(174)	(95)
Increase in insurance liabilities	453	180
Increase/(decrease) in payables arising out of direct insurance operations	428	(659)
Decrease in other creditors	(186)	(564)
Cash generated from/(used by) operations	4,956	(4,846)

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15) Employee information		Group		Company	
		2018	2017	**2018**	2017
Monthly average number of persons (including Executive Directors) employed on permanent contracts		**292**	301	**248**	259
Monthly average FTE (including Executive Directors) employed on permanent contracts		**269**	281	**226**	240
		£'000	£'000	**£'000**	£'000
Staff costs	Wages and salaries	11,184	[illegible]	10,733	[illegible]
	Social security costs	1,124	[illegible]	1,118	[illegible]
	Other pension costs	810	[illegible]	790	[illegible]
		13,118	13,490	**12,641**	13,045

16) Directors' emoluments	2018 £'000	2017 £'000
Salary	**1,740**	2,067
Pension related benefits	**265**	292
Benefits-in-kind	**56**	49
Amounts payable under short-term incentive plans	***303***	348
Amounts payable under long-term incentive plans	**174**	148
Aggregate emoluments	**2,538**	2,904
Highest paid Director		
Salary	**483**	471
Pension related benefits	**97**	94
Benefits-in-kind	**14**	10
Amounts payable under short-term incentive plans	**95**	85
Amounts payable under long-term incentive plans	**65**	64
Aggregate emoluments for highest paid Director	**754**	724

There were 11 Directors in 2018 [illegible]

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 pension trustee is responsible for the governance of the Scheme in accordance with UK Government legislation

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

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

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 ..

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NOTES TO THE ACCOUNTS

continued

In October 2018, the UK High Court ruled that defined benefits schemes should equalise pension benefits for men and women in relation to Guaranteed Minimum Pensions (GMPs). This is relevant to all UK defined benefit schemes with benefits earned between May 1990 and April 1997, including the Company Scheme. The Scheme Actuary has estimated the impact of equalising GMPs for the Scheme to be an increase of 1% of the Scheme liabilities, this increase is reflected in the numbers below as a past service cost. The cost has been charged to the Income Statement as an exceptional item in relation to the Scheme.

The major assumptions used by the actuary were:	**2018**	**2017**
Rate of increase of pensions in payment	3.24%	3.20%
Discount rate	2.80%	2.40%
Inflation assumption – RPI	3.35%	3.30%
– CPI	2.85%	2.80%
Members taking maximum lump sum	75%	75%
Proportions married	85%	85%
Expected return on Scheme assets	2.8%	2.4%

The weighted average duration of the defined benefit obligations is 21 years.

A 0.25% increase in the assumption made for discount rate would, in isolation, have decreased the valuation of Scheme liabilities by £2,092,000, a 0.25% reduction would have increased Scheme liabilities by a like amount. The assumptions for salary and pension increases are directly linked to inflation. A 0.25% increase in the inflation assumption would, in isolation, have increased Scheme liabilities by £1,184,000, a 0.25% decrease would have decreased the valuation of Scheme liabilities by a like amount. If mortality assumptions were to increase by one year this would increase the Scheme liabilities by £1,344,000, a one year decrease would decrease the Scheme liabilities by a like amount. If the proportions married were to increase by 10% this would increase the Scheme liabilities by £442,000, a 10% decrease would decrease the Scheme liabilities by a like amount.

Weighted average life expectancy for mortality tables used to determine benefit obligations at:	**2018** Male	**2018** Female	**2017** Male	**2017** Female
Member age 60 (current life expectancy)	29.8	31.3	29.7	31.1
Member age 45 (life expectancy at age 60)	31.5	33.1	31.4	32.9

Scheme assets:	**£'000**	**£'000**
Gilts	52,463	57,058
Annuity policies	122	146
Other	(52)	(448)
Total market value of assets	52,533	56,756
Actuarial value of liabilities	(39,226)	(44,467)
Scheme asset	13,307	12,289
Related deferred tax asset	(235)	345
Net Scheme asset	13,072	12,634

The Gilts are considered to be fair value level 1.

Analysis of Scheme costs included within net operating expenses (note 4)	**2018 £'000**	**2017 £'000**
Past service cost (equalising GMPs)	388	-
Loss on transfers out	264	1,162
Exceptional items in relation to the pension scheme	652	1,162

Note 17 continues on opposite page...

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Analysis of net interest cost on the Scheme included within investment return (note 3)	2018 £'000	2017 £'000
Expected return on Scheme assets	1,316	1,675
Interest on Scheme liabilities	(1,029)	(1,284)
Net interest on the Scheme	287	391

Statement of Changes in Equity	2018 £'000	2017 £'000
Return on plan assets (excluding interest income)	(1,662)	(113)
Changes in assumptions	3,048	(1,919)
Actuarial gain/(loss) recognised	1,386	(2,032)
Related deferred tax (charge)/credit	(235)	345
Changes in equity	1,151	(1,687)

Movement in value of the Scheme during the year Change in benefit obligation		2018 £'000	2017 £'000
Present value of benefit obligation at beginning of year		44,467	53,731
Past service cost (equalising GMPs)		388	-
Loss on transfers out		264	1,162
Interest cost		1,029	1,284
Actuarial changes	– Effect of changes in financial assumptions	(3,160)	2,022
	– Effect of experience adjustments	115	(103)
Benefits paid		(3,877)	(13,629)
Present value of benefit obligations at end of year		39,226	44,467

Change in Scheme assets	2018 £'000	2017 £'000
Fair value of Scheme assets at beginning of year	56,756	68,823
Interest income	1,316	1,675
Return on Scheme assets (excluding interest income)	(1,662)	(113)
Benefits paid and transfers out	(3,877)	(13,629)
Fair value of Scheme assets at end of year	52,533	56,756

History of assets and liabilities	2018 £'000	2017 £'000
Total market value of assets	52,533	56,756
Present value of Scheme liabilities	(39,226)	(44,467)
Scheme surplus	13,307	12,289

Note 17 continues overleaf .

History of experience gains and losses	2018	2017
Return on Scheme assets	(3.2%)	(0.2%)
Experience gains/(losses) on Scheme liabilities	0.0%	0.0%

As the Scheme closed to future accrual on 31 December 2015, the Company made no normal contributions during the year [illegible] During the year the Company made no special contributions to the Scheme [illegible] Given the Scheme surplus no normal or special contributions are anticipated for 2019

Since the transition date the cumulative gain recognised through the Statement of Comprehensive Income is £9,000,000 [illegible]

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 £1,179,000 [illegible] were made to defined contribution schemes

Group and Company	Pension Scheme surplus £'000	Post employment medical provision £'000
At 1 January 2017	15,092	(550)
Movement in the year	(2,803)	(87)
At 31 December 2017	12,289	(637)
Movement in the year	1,018	3
At 31 December 2018	13,307	(634)

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% [illegible] and the discount rate of 2 8% [illegible] Mortality assumptions are taken from the S1 Light table with CMI 2012 projections and 1 5% pa long term rate of improvement [illegible]

18) Commitments and contingent liabilities

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
The future aggregate minimum lease payments under non-cancellable leases are as follows				
Within one year	127	52	128	54
Between one and five years	364	180	197	180
After five years	268	296	312	340
	759	528	637	574

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

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

Transactions in the year:	2018 £'000	2017 £'000
Administration charge by WPA Limited	(9,385)	(1,668)
Administration charge to WPA Limited	9,545	1,038
	160	(630)

Balances outstanding:	2018 £'000	2017 £'000
Gross receivable by WPA Limited	3,116	2,924
Gross payable by WPA Limited	(150)	(410)
	2,966	2,514

b) Key management compensation

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

	2018 £'000	2017 £'000
Salary	1,740	2,067
Pension related benefits	265	292
Benefits-in-kind	56	49
Amounts payable under short-term incentive plans	303	348
Amounts payable under long-term incentive plans	174	148
Aggregate emoluments	2,538	2,904

Key management personnel purchased insurance policies on an arm's length basis with premium payments of £694 in the year [illegible]

c) Other related parties

During the year the Company made donations to the WPA Benevolent Foundation Limited (the Foundation), a company limited by guarantee and affiliated to the Group, totalling £250,000 [illegible] The objective of the Foundation is the promotion of good health in young people through supporting projects and working with communities and special-interest groups in the South West. The Company leases, on an arm's length basis, a property owned by the Foundation and paid lease costs in the year of £45,000 [illegible]

The Company holds investments with a value of £9,354,000 [illegible] 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% [illegible] of the fund

As a consequence of WPA's investment, Mr Irwin was a non-executive director as the Company's representative on Proton Partners International Limited's board throughout 2018 and resigned on 13 February 2019

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 Risk Appetite Statement The Investment Committee monitors the management of investment assets to ensure that they meet the aims and objectives set out in the Risk Appetite Statement, the investment managers report regularly to the Investment Committee to enable it to fulfil this role.

a) Market risk

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

The geographical equity exposure of the portfolio in collective investment funds at 31 December 2018 and 2017 were

Geographical equity exposure	Number of funds	2018 £'000	Number of funds	2017 £'000
UK	2	3,573	3	8,764
Asia	2	11,597	3	13,212
Global	1	1,561	2	8,685
	5	16,731	8	30,661

The principal financial assets held at 31 December 2018 and 2017, analysed by their fair value hierarchy levels were

		2018 £'000	2017 £'000
Level 1	Forward currency contracts	0	
	Deposits with credit institutions at floating rates	36,439	46,268
Level 2	Collective investment funds	13,158	27,051
Level 3	Collective investment funds	3,573	3,610
	Equity	10,000	5,000
At amortised cost			
	Government issued securities	107,916	77,836
	Debt and other fixed income securities	19,424	20,380
		190,510	180,145

Government issued securities, debt and other fixed income securities, loans and receivables and trade debtors are recognised in the Statement of Financial Position at amortised cost The fair value of trade debtors are considered to be equivalent to the amortised cost Whilst all the investments in the portfolio are susceptible to movements in interest rates, to a greater or lesser extent, the most directly affected are the fixed income and Government issued securities The Group has 20 [illegible] 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 £127 3m within these financial statements The estimated fair value of these instruments is £126 9m

Any percentage gain or loss on these assets would be directly proportional to their value therefore no further sensitivity analysis has been performed

Note 20 continues on opposite page...

Reconciliation of Level 3 fair value measurements of financial assets:	Unquoted equities 2018 £'000	 2017 £'000
Balance at 1 January	8,610	9,089
Total gains recognised	5,068	551
Purchases	–	150
Sales	(105)	(1,180)
Balance at 31 December	13,573	8,610

Fair value hierarchy

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

Level 2 Values are provided by the investment manager using techniques based significantly on observed market data, including net asset values

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

The level 3 collective investment funds comprises of holdings within two collective investment schemes, the underlying investments of which contain some unlisted equities and equities listed on secondary markets The valuation within these financial statements is provided by the Fund Managers The Fund Managers' practice is to use the cost level for all financial instruments which are not publicly traded and takes account of other relevant information such as refinancing, current financial performance of the instrument's issuer, general market trend of the issuer's industry and other economic information that a seller of an instrument would generally consider in setting the price at which to sell the instrument The level 3 equity represents a directly held unlisted equity, which is held at fair value using observable equity transactions, external market trends of the issuer's industry and other economic information

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

The Group holds small current account bank balances in Indian Rupees, which are primarily held for working capital purposes The Group has a regular need to purchase Rupees to meet the operating expenses of WPA World Class Service Limited

The largest single market to which the Company has exposure is the UK equity market Using the FTSE 100 as a proxy for the UK equity portfolio, if this index were to fall by 200 points, the impact on asset values would be a reduction of £400,000 [illegible] If all equity values were to fall by 5% this would reduce asset values by £1,340,000 [illegible].

b) Credit risk

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

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

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

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

The largest single counterparty exposure is the UK Government stock of £107 9m The maximum duration of UK Government stock held at amortised cost is three years

Note 20 continues overleaf...

c) Liquidity risk

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

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

The following table analyses the financial liabilities of the Group, the majority of which will be settled within twelve months, with £1,319,000 of other creditors settled later than twelve months . 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

	2018 £'000	2017 £'000
Creditors arising from direct insurance operations	**5,447**	5,019
Provision for outstanding claims	**9,542**	9,356
Corporation tax	**836**	-
Other creditors	**7,014**	6,736
	22,839	21,111

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 £394,000

20.3 Capital risk management

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

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

During the year the Company continued to report under the 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 2018 the Group's solvency coverage against the standard formula assessment was 620% (unaudited) Further information can be found in the Solvency & Financial Condition Report on the 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 have been issued but are not yet effective and (in some cases) had not yet been adopted by the EU

IFRS 17	Insurance contracts
IFRS 16	Leases

The Group is currently assessing the impact of IFRS 17

For IFRS 16 we anticipate that we will need to recognise the business continuity site, which the Company leases, as an asset, with the corresponding future lease payments as a liability The impact has been assessed and will not be material

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

22) IFRS 9 deferral

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

The Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015 The Group's percentage of its gross liabilities connected with insurance relative to its total liabilities at 31 December 2015 was 99% which is in excess of the 90% threshold required by IFRS 4. Liabilities connected with insurance comprised the liabilities arising from contracts within the scope of IFRS 4 for a total amount of £55 3m, liabilities from non-derivative investment contracts measured as FVTPL for a total amount of £0 3m and liabilities that arose as the insurer fulfils obligations arising from contracts within the scope of IFRS 4 and non-derivative investment contract liabilities measured as FVTPL (for example, liabilities for other payables directly associated with those obligations) for a total amount of 4 2m

During 2018 and 2017, there has been no significant change in activities of the Company that requires reassessment of the use of the temporary exemption from IFRS 9

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

(i) SPPI assets of which cash flows represent Solely Payments of Principal and Interest on an outstanding principal amount, but are not meeting the definition of held for trading in IFRS 9, or are not managed on a fair value basis, and,

(ii) Fair Value Option assets that follow the fair value option at initial recognition and carried at FVTPL, and,

(iii) Other (at FVTPL) all financial assets other than those specified in SPPI and Fair Value Option
- with contractual terms that do not give rise on specified dates to cash flows that are SPPI on the principal amount outstanding,
- that meet the definition of held for trading in IFRS 9, or,
- that are managed and whose performance are evaluated on a fair value basis

Based on the assessment carried out, no provision has been made for expected credit losses

Note 22 continues overleaf

Fair values as at 31 December 2017	Solely Payments of Principal and Interest £'000	Fair Value Option £'000	Other (at FVTPL) £'000	Total £'000
Debt securities	98,216	-		98,216
Equity securities			5 000	5,000
Loans and receivables			39,902	39,902
Collective investment schemes			30 661	30,661
Derivatives	-	-	-	-
Cash and cash equivalents	-	-	53,298	53,298
Total financial assets	98,216	–	128,861	227,077

Fair values as at 31 December 2018

Debt securities	127,340	–	–	127,340
Equity securities	–	–	10,000	10,000
Loans and receivables	–	–	39,646	39,646
Collective investment schemes	–	–	16,731	16,731
Derivatives	–	–	0	0
Cash and cash equivalents	–	–	43,625	43,625
Total financial assets	127,340	–	110,002	237,342

Change in fair value

Debt securities	29,124	–	–	29,124
Equity securities	–	–	5,000	5,000
Loans and receivables	–	–	(256)	(256)
Collective investment schemes	–	–	(13,930)	(13,930)
Derivatives	–	–	–	–
Cash and cash equivalents	–	–	(9,673)	(9,673)
Total financial assets	29,124	–	(18,859)	10,265

Note 22 continues on opposite page...

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For financial assets whose cash flows represent SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides information on credit risk exposure (rated by Standard & Poors) The financial assets are categorised by asset class with a carrying amount measured in accordance with IAS 39 measurement requirements (in the case of financial assets – measured at amortised cost, before adjusting for any impairment allowances)

as at 31 December 2017	Debt securities £'000	Equity securities £'000	Loans and receivables £'000	Collective investment schemes £'000	Cash and short-term deposits £'000	Total £'000
AAA	740	–	-	-	-	740
AA	77,096	–	-	-	9,194	86,290
A	1,839	–	-	-	25,564	27,403
BBB	13,519	–	-	-	18,136	31,655
Without external rating	5,022	5,000	39,902	30,661	404	80,989
	98,216	5,000	39,902	30,661	53,298	227,077

as at 31 December 2018	Debt securities £'000	Equity securities £'000	Loans and receivables £'000	Collective investment schemes £'000	Cash and short-term deposits £'000	Total £'000
AA	107,916	–	–	–	1,004	108,920
A	4,209	–	–	–	29,335	33,544
BBB	10,193	–	–	–	12,729	22,922
Without external rating	5,022	10,000	39,646	16,731	557	71,956
	127,340	10,000	39,646	16,731	43,625	237,342

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

as at 31 December 2018	Carrying amount £'000	Fair Value £'000
Debt securities	127,340	126,874
	127,340	126,874

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