WESLEYAN CARES FOR YOUR FINANCIAL FUTURE

N/L

Annual Report and Accounts 2013

WESLEYAN

we are all

INTRODUCTION

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You'll notice that we're looking a little different. At Wesleyan we are at an exciting stage of our 173-year history Our sustained record of success has been based on our ability to move with the times and adapt to the changing environment. We want to make doing business with us simpler

We haven't changed who we are We're still very much a specialist provider. We'll still be providing quality financial advice and solutions to meet the specific needs of our customers We'll still be taking a long-term approach to deliver the best investment returns and ongoing economic success.

We're still a mutual with no shareholders so we can run our business in the best interests of our members and policyholders So, in summary we remain all about you

IMAGE REMOVED

For more information on our business please visit www wesleyan co uk

SOCIETY AND FINANCIAL HIGHLIGHTS

10/10

Our With Profits Fund was again rated 10/10 in an independent survey of with profits offices We are the only life office to have achieved this rating for nine consecutive years

Cazalet Consulting With Profits survey June 2013

£506m

The Society's Realistic Excess Available Capital at the end of 2013, which represents our financial strength

15.7%

Wesleyan With Profits Fund total gross return in 2013

73,636

Policyholders who were given a voucher as part of the Society's Mutual Rewards Scheme

£90,000

The amount raised jointly by staff and the Group for our chosen charity Birmingham Children's Hospital during 2013

87%

The percentage of our customers that rated us an 8, 9 or 10/10 for a positive customer experience

IMAGE REMOVED

Wesleyan acquired Practice Plan Group – the leading provider of practice–based dental memberships

IMAGE REMOVED

Wesleyan's 'My Benefits' scheme won 'Most Impactful Integrated Voluntary Benefits Strategy' at the Benefits Excellence Awards

IMAGE REMOVED

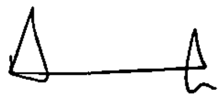
Wesleyan's groundbreaking apprenticeship scheme is rewarded with an Employer Star Award by Birmingham Metropolitan (BMET) College

IMAGE REMOVED

Wesleyan named one of the financial industry's top innovators after winning the best financial advice initiative category at the Financial World Innovation Awards 2013 for its Retail Distribution Review model

CHAIRMAN'S STATEMENT

IMAGE REMOVED



BRYAN JACKSON CBE
Chairman

"Wesleyan continues to receive excellent ratings from customers for the service they receive. However, we are not complacent."

BACKGROUND

We began 2013 confident that we had in place the infrastructure and culture to respond to the regulator's Retail Distribution Review (RDR) initiative but less sure about what RDR would mean for our customers, the industry and Wesleyan I am pleased to report that while it is still a little early to draw firm conclusions the general assessment in the industry is that the RDR initiative has made the advice process more trustworthy, with advisers better qualified and more open about charges, and the response from our customers to our approach has been very positive Similarly our own initial assessment is that there has been little, if any, negative impact on the delivery of our offering to our customers

However, changes to the ISA transfer market, further reductions in the pensions Lifetime Allowance and reduced reinvestment in bonds have resulted in a fall in the amount of single premium business written and the introduction of gender neutral pricing for insurance premiums has impacted profitability, although not significantly These factors are considered further in the Strategic Report on pages 4 to 13

STRATEGY

The Board made subtle but significant changes to the Society's vision and mission statement at its annual review of strategy in June The revised version is illustrated below

The strategic path set for Wesleyan a number of years ago of "significant but managed growth, while maintaining financial strength" is reported on in the Strategic Report In delivering this strategy the Board fully supports ongoing and planned investments in our IT systems, and will maintain a close eye on the cost effectiveness of these projects

PERFORMANCE

Overall performance in 2013 was broadly in line with the expectations set at the start of the year Supported by a strong investment performance assets under management rose to £5 6bn for the first time More detail on performance and investment returns in 2013, including the Group's purchase of Practice Plan Limited to enhance activity and opportunity in the dental sector, is provided in the Strategic Report

VISION – TO BE THE BEST IN OUR CHOSEN MARKETS

MISSION – THROUGH CONTINUOUS IMPROVEMENT

To be a strong and profitable business	That provides specialist financial advice and solutions designed to meet the personal, professional and business needs of our chosen markets To be the provider of choice for our customers	And the employer of choice for staff
Financial strength and profitability	Customer proposition	People

UNDERPINNED BY STRONG RISK AND GOVERNANCE

"The Society's financial strength and the efficient management of its capital supports its ambitions going forward."

Wesleyan continues to receive excellent ratings from customers for the service they receive However we are not complacent I reported last year on the challenging goals set across the business to raise the standard of service and the quality of the customer experience This is not a one-off exercise but a continuous, evolving process and while progress is being made there is still more to do in terms of a root and branch examination of all our activities

MUTUALITY

Much has been written contrasting mutual organisations with Plcs and doubtless this will continue The Board continues to believe that mutuality has many advantages for Wesleyan customers
We recognise however that the mutual sector faces challenges in this increasingly demanding economic climate and regulatory environment and that we must continue to offer customers competitive products and quality service

The Society's financial strength and the efficient management of its capital supports its ambitions going forward There is therefore little pressure on examining the continued mutual status that has served us well since 1841

RISK MANAGEMENT

In 2013 the Society continued the embedding and development of its Risk and Compliance framework We have appointed a Chief Risk Officer, Roger Dix, reporting direct to the Chief Executive This will ensure a greater focus on risk and compliance at a senior level providing a strong lead in the new regulatory world of the Financial Conduct Authority and Prudential Regulation Authority as further explained on page 13

The Board has considered and is well aware of the potential risks and uncertainties facing the Society and these are clearly documented later in the report on pages 11 to 13

GOVERNANCE

I believe the Society's Board comprises individuals with deep knowledge and experience of the industry coupled with independence of mind and the capacity for the robust challenge of management over their delivery of our customers' expectations A great deal is now expected of a Non-Executive Director in the financial services sector and I believe the Board's governance around risk, audit, remuneration and the management of with profits business is of a high standard

In the final quarter of 2013 changes were introduced to the senior management structure to provide more clearly defined ownership and responsibility for individual business units – the Board fully supports these changes and expects to look in greater depth at the strategy, performance and risks of individual business units in 2014

As a consequence of these changes, Steve Deutsch stood down from the Board after six years of service, to focus on leading the direction of Wesleyan Bank as its Managing Director In January 2014 we welcomed Liz McKenzie to the Board as Group Corporate Services Director, recognising her experience in corporate planning and the importance of the support services to the delivery of the Society's strategy

LOOKING AHEAD

The Board recognises the challenges ahead but remains confident in the long-term future of the Wesleyan and its ability to meet customer outcomes

The Board's thanks go to all staff for their contribution to the progress achieved in 2013

Bryan Jackson CBE
Chairman

27 March 2014

FINANCIAL SUMMARY OF 2013

Society New Business (APE)[1]	2013	2012
Total	**£41.6m**	£47 9m
Society Premium Income – Gross[2]		
Total	**£297m**	£387m
Investment Returns		
With Profits Fund	**15.7%**	11 0%
Life Managed Fund	**18.8%**	12 6%
Pensions Managed Fund	**19.8%**	11 0%
Fund Size		
Total Assets	**£5.6bn**	£5 2bn
Long-Term Fund (net)	**£3.5bn**	£3 2bn
Fund for Future Appropriations	**£626m**	£653m
Investment Mix – With Profits Policyholders		
Equity Shares	**64%**	63%
Property	**7%**	8%
Fixed Interest	**17%**	12%
Cash & Other	**12%**	17%
With Profits Realistic Balance Sheet		
Assets	**£3,195m**	£2,872m
Liabilities	**£2,659m**	£2,316m
Working Capital	**£536m**	£556m

[1] The above is stated in terms of Annual Premium Equivalent (APE), being 12 months' premium for regular business plus 10% of single premiums
[2] Includes premiums received for investment contracts (2013 £47 5m 2012 £67 0m)

OUR BUSINESS MODEL AND STRATEGY

IMAGE REMOVED

CRAIG ERRINGTON
Chief Executive

"Our continuous improvement programme puts quality and the customer at the heart of everything we do."

The Directors present their Strategic Report on the Group for the year ended 31 December 2013

OUR BUSINESS MODEL

Wesleyan is a mutual organisation incorporated in England by Private Act of Parliament Its principal activities are the provision of financial advice to doctors, dentists, teachers and lawyers and the transaction of long-term insurance business in the UK The Society's product offering focuses on life assurance, pensions and income protection insurance in the form of reviewable, with profits and unit-linked contracts

Complementary to these activities, the Group provides a number of other financial services, through wholly-owned subsidiary undertakings, including retail banking, retail and commercial lending, unit trust management, mortgage broking, acting as a general insurance broker and providing dental patient membership plans With profits policyholders share in the profits and losses of these subsidiary companies

STRATEGY

Successful delivery of the strategy as outlined by the Chairman in his Statement is based on

- using a lifetime model to provide a full range of advice and solutions to the developing financial needs of our customers with the focus on producing excellent outcomes for customers,
- providing customers with our own manufactured products unless there is a clear advantage to meeting members' needs externally;
- looking to broaden our product range, whilst maintaining a strong with profits offering,
- remaining a financially strong mutual, providing security and market-leading returns to our customers, and
- further expansion into the teachers and lawyers markets to provide our services more broadly to professions

As the provider of financial advice to professionals through Wesleyan Financial Services, we seek to secure long-term mutually beneficial relationships with our customers by providing specialist financial advice at each career stage This is achieved through 330 Financial Consultants operating across the UK, supported by 30 Area Managers and Senior Managers separately responsible for geographical areas Each of our Financial Consultants receives ongoing training to keep fully up-to-date with the changing issues our customers face This ensures that our specialist advice is always personalised to our customers' particular circumstances

We believe that there is considerable opportunity for growth by improvements to the sales process resulting in higher levels of activity in the number of customers seen Furthermore through our continuous improvement programme, that puts quality and the customer at the heart of everything we do, and through ongoing and planned investments in projects to rationalise and strengthen our IT infrastructure, we aim to improve efficiency in all areas of our operations These planned investments cover both the processing of new business and the handling of the inforce book of business

In October 2013 the Group received regulatory approval for its purchase of Practice Plan Limited This is a key strategic move, providing new ancillary services and potential cross sale synergies, and will accelerate the Society's expansion into the dental market Practice Plan currently enjoys its status as the leading provider of practice-branded membership plans as well as owning Medenta, a major provider of patient finance to UK dental practices

BUSINESS ENVIRONMENT

BUSINESS ENVIRONMENT

The UK life insurance industry remains highly competitive with the Group experiencing greater competition – this is expected to continue and is partly a consequence of the requirements of the regulator's RDR initiative There is also increased pressure on costs, in particular in the regulatory, risk management and compliance areas

While recognising these challenges the Group believes growth is important for our customers in terms of both the breadth of the product offering to support their financial needs and the downward pressure on costs It considers there is great potential in its niche strategy and will continue to ensure it has the infrastructure and culture to respond to the needs and expectations of its customers We recognise that our customers' expectations of us are changing and technology is now the driving force We want to provide bespoke advice in a way that suits our customers' needs To do this we are reviewing our processes, improving our systems, increasing the ways in which we communicate and enabling our employees to deliver excellence in all they do Our refreshed brand is a key step on this journey

The Society remains committed to with profits However there is concern over some of the negative publicity that with profits receives, in particular a lack of transparency and the exercise of discretion This criticism sometimes ignores the experiences of the different years over which policies have been invested It also fails to differentiate between the stronger offices, such as the Society which because of its financial strength can invest in equities for the longer term and provide better return for members, and the weaker ones

RESULTS AND PERFORMANCE

The results of the Group for the year, as set out on pages 43 to 45, show a small decrease in the Fund for Future Appropriations (FFA) of £27 7m (2012 an increase of £68 0m), with the removal of discounting from the calculation of deferred tax liabilities and the effect of changes to the assumptions underlying the calculation of the pension asset having a particular impact in 2013 The FFA represents the excess of assets over liabilities, a measure of our financial strength At 31 December 2013 the FFA was £625 5m (2012 £653 2m) More information on other definitions of financial strength are given in Note 13 on pages 69 to 74

Total assets under management increased over the year by £0 4bn to £5 6bn reflecting the growth over the year of our high quality equity portfolio Members will be aware of our commitment to equities as providing the best opportunity to achieve market-leading returns over the long term Policyholder funds continue to contain a high weighting in equities of 64% (2012 63%) reflecting the asset mix discussed with individual policyholders when they made their investment The Group's working capital has a lower equity percentage reflecting a more cautious investment approach to reduce the effects of stock market volatility on capital and to protect "our customer promise"

The Board monitors performance through group operating profit which includes the following

- operating profit for the Life and Pensions new business and elements of inforce profit calculated on an embedded value basis,
- operating profit for each of the subsidiary companies
  - Wesleyan Financial Services including its General Insurance broking operation,
  - Wesleyan Bank,
  - Wesleyan Unit Trust Managers,
  - Practice Plan (from October 2013 only), and
- the long term expected return on the Society's estate

Account is also taken of the Solvency II risk appetite and new business product pricing with the overall approach evolving as we move closer to the Solvency II implementation date of 1 January 2016

Targets set for operating profit reflect both new and inforce business before profits are distributed to policyholders 2013 actual performance was broadly in line with these targets and the Group's strategic growth plans This generates value for with profits policyholders, through the declaration of bonuses

Reports covering each part of the Group follow

(i) Wesleyan Financial Services

2013 was dominated by the need for the sales teams to adjust to the requirements of the Retail Distribution Review (RDR) initiative Its successful implementation reflects the commitment and resources devoted to its introduction and to the training and support provided to the Financial Consultants to ensure they meet the higher standards of professionalism and knowledge

We have been particularly pleased that over 90% of customers seeking investment advice are 'opting in' to our ongoing advice service which provides the following

- ongoing proactive management of investments,
- the opportunity to see a Financial Consultant when required and the proactive offer of an annual financial review, and
- receipt of periodic advice alerts when there are changes to legislation

The most common reasons given by customers for opting in to this service are that

- it will save them money,
- it is a cheaper way of receiving advice,
- they value the expert advice given, and
- they lack the time to manage their own financial position

We have also carried out research to confirm that customers understand the changes brought about by RDR, in particular the charges and the benefits of the advice service and in recognition of our RDR model we were named one of the industry's top innovators after winning the best financial advice initiative category at the Financial World Innovation Awards 2013 These awards are designed to recognise innovation demonstrating excellence, inspiration and creativity in the financial services industry

Our focus is to deliver even better outcomes for our customers, so a fundamental building block in our strategy is to support and enable "performance excellence" amongst our Financial Consultants We have introduced a new remuneration scheme for Financial Consultants linked to a Performance Excellence Framework with clear objectives, culture and career progression opportunities This framework is supported by ongoing coaching and development

Our new remuneration scheme for Financial Consultants emphasises rounded performance and is no longer tied to sales targets, rewarding excellent customer outcomes, professionalism, service delivery and contribution to company performance

As an indication of our customers' satisfaction 87% (2012 83%) of customers have rated us as 8, 9 or 10/10 for a positive customer experience

The loss for the year in Wesleyan Financial Services arises from a combination of reduced income from product mix and increased costs relating to sales and marketing activity which are expected to provide the platform for sustained growth in the future

(ii) Life and Pensions

We expected in 2013 to continue to receive considerable volumes of business from ISA transfers and from pensions In line with others in this market, the ISA transfer market was much reduced this year In respect of pensions an increasing number of our clients, particularly at the senior end of the medical profession, are now being challenged by the Lifetime Allowance (currently at £1 5m but to reduce to £1 25m from April 2014) This has consequences for making additional pension provision over that provided by the NHS Pension Scheme In addition in 2013 we saw a lower level of maturing bonds resulting in reduced reinvestment in the Society's Capital Investment Bonds

A significant part of the income shortfall was made up by higher than expected sales of our Practice Protector product offered to General Practitioners where we saw higher new business volumes as well as increases to the cover under existing policies

The significant reduction in ISA transfers received is reflected in the graph showing the five-year trend for new business which has fallen back in 2013 to £41 6m, against £47 9m for 2012, of which £20 3m was from single premium business (2012 £28 7m)

Our targets for 2014 and the growth strategy going forward reflect the reduced opportunities in the ISA transfer and pensions markets, with a greater proportion of future income expected in the short term to come from protection business in the form of regular premiums under longer-term policies

In last year's report reference was made to the introduction of new gender-neutral pricing for insurance products As expected we did see customers reviewing their policies with the result that there was an increase in lapses compared with prior years The overall effect on the Society's business was not however significant

(iii) Wesleyan Bank

The Bank continues to make good progress, with income up 32 5% and profits up significantly in the year, contributing to the Group's operating result for 2013 This growth is driven by continued success in both retail and commercial lending We now have strong relationships with 10% of law firms throughout the UK, who look to us to fund their short-term finance needs

During the first half of 2013 work was undertaken to revise and agree the strategy for the Bank over the coming five years and plans are now in place to implement this The Bank team has been strengthened with a number of key hires, and a new core banking system is being developed for implementation during the second half of 2014 These steps, combined with a strong sales, business development and marketing push will support our growth of products and services into our chosen markets, via direct and intermediary channels and will see the extension of commercial lending into dental and GP practices amongst others

INVESTMENTS

(iv) General Insurance

The General Insurance (GI) strategy is to provide a high quality broking service to the markets we serve and pleasingly, we saw new business commission income grow by 18% in comparison to the previous year In particular, our 'Wesleyan Private Clients' service provides high net worth customers with a comprehensive and free appraisal of their assets and we realised an 11% growth in policy volumes in this area

Looking ahead, our strategy as a broker is to continue serving our existing customers whilst pursuing growth initiatives This will include the development of new products to further serve the commercial needs of our medical markets in particular We will also carefully consider merger and acquisition options as and when suitable opportunities arise and review our operational methodology in the wider fast moving digital environment, looking to enhance our customer experience and increase operational efficiency

INVESTMENTS

Major equity markets were strong in 2013, helped by a continuation of very low short-term interest rates in most developed economies and a general determination of central banks to provide an environment supportive of economic growth Investor concerns at the start of the year about a possible triple-dip recession in the UK and more turmoil in the euro zone proved unfounded and 'risk assets' such as equities and property performed well as a result. The year ended with definite signs of positive momentum in the UK economy and most forecasters are predicting that 2014 will see an improved growth rate compared to recent years

The total return on UK equities, as measured by the FTSE Actuaries All-Share Index, was 20 8% for the year Smaller and so-called 'mid-cap' companies significantly outperformed the larger multinationals once again Many key overseas markets were even

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Note The fall in New Business Income and Premium Income in 2013 was largely due to the ISA transfer market, further reductions in the pensions Lifetime Allowance and a lower level of maturing bonds resulting in reduced reinvestment (for more information see page 7) stronger with the US, Europe and Japan producing sterling returns typically in the range of 25–30% By contrast, Emerging Market equities were very disappointing with China and India actually producing negative returns in sterling terms For other major asset classes commercial property prices rose while UK bonds were disappointing as yields on medium and longer dated securities increased reflecting the improving economic background and investors switching out of relatively secure assets Bond prices were also hit by indications from the US Federal Reserve that, due to the improving economic outlook, they would begin scaling back the large quantitative easing (electronic printing of money) programme that has been in place for some time

This market background was a favourable one for our policyholders The Wesleyan With Profits Fund, which holds a range of assets with the emphasis very much on equity shares, produced a total gross return of 15 7% (2012 11 0%) We believe this will again prove to be very competitive when measured against other comparable funds and the longer-term record remains excellent Holding equities and other such risk assets can lead to short-term volatility but over the long-term should provide better returns and this is borne out by our long-term investment performance which continues to be excellent Our range of managed life and pensions funds also produced strong absolute and relative performance in 2013 Assets under management for the Group rose to just under £5 6bn

FINANCIAL STRENGTH

Maintaining the Group's financial strength is fundamental to the long term success of the Society because of the security it provides to our policyholders and because it supports our investment strategy of holding a higher than average exposure to equities A five-year history of the Society's Realistic Excess Available Capital is shown on page 8

As stated earlier, this strategy is believed to deliver long-term benefits to policyholders in terms of bonuses Our record on payouts, both for short and longer-term policies compared to our competitors, supports the Group's approach Our With Profits Bond has been a top quartile performer in nine out of the last ten years The risks of this investment strategy are acknowledged and their management is detailed in the section headed "Risk Management" on pages 51 to 58

Wesleyan's strength has once again been recognised in the Cazalet Consulting annual review which was based on an in-depth analysis of Wesleyan's With Profits Fund at 31 December 2012 analysing investment philosophy and performance, asset shares and policy values, new business volumes, management of capital, business risks and cash flows Wesleyan has been awarded a ten out of ten rating and is the only organisation to have achieved this in each of the last nine years

The Group's financial strength has been maintained over 2013 due to a combination of the strength of the equity markets and from measures taken to manage the Group's capital and risks as efficiently as possible An example of this has been a reduction in the amount of capital required to be held to support our commitment to the Staff Pension Scheme as a result of better matching the assets and liabilities in the Scheme, a move led by a joint working group of the Society and the Trustees Furthermore work is in hand to improve the asset and liability management of the Society's capital Also focus has turned again to the introduction of Solvency II, the new European solvency capital rules, delayed by the European Union in October 2012 but now to take effect in January 2016 We have already put into effect many of the requirements of the rules and have confidence about the impact on the Group's capital and longer-term strategy

Building on the strategy work carried out in 2012 and 2013 we continue to review and plan our future based on a five-year horizon to help prioritise resource and to track our performance

EMPLOYER OF CHOICE

Our commitment to be the employer of choice for all staff remains central to our organisational culture The following are examples of this

- low rates of staff turnover in both Head Office and the sales force,
- our annual employee opinion survey shows staff engagement at 80% (2012 81%), well above the industry standard,
- every employee has an individual training and development programme to allow them to progress in their role We aim to provide a transparent view of what is needed to achieve a move to the next level providing greater opportunities for progression within the organisation rather than moving externally,
- we are committed to growing our own talent and developing the staff of tomorrow through personal and professional development,
- our staff incentive scheme 'My Benefits' won the 'Most Impactful Integrated Voluntary Benefits Strategy' at the Benefits Excellence Awards in October 2013 The scheme provides staff with a variety of options, ranging from reduced rates on insurance, to the ability to take advantage of the Cycle2Work programme and obtain discounts at various high street and online retailers, and
- the introduction of Auto-Enrolment to our defined contribution scheme in November 2013 with a take-up of over 90% and widened investment choices

CORPORATE SOCIAL RESPONSIBILITY AND FUTURE DEVELOPMENTS

CORPORATE SOCIAL RESPONSIBILITY

Wesleyan has a commitment to being a responsible business within our community Our policies and practices are wide-ranging and look to improve both our immediate work place and our local environment

The areas in which we focus are - Community, Work Place, Market Place and Environment

Within each of these areas the Society undertakes numerous activities to support and build a better community How we look after our customers, members and employees and ultimately our environment is demonstrated by

- our commitment to raise £120,000 during 2013 and 2014 to support our staff chosen charity, Birmingham Children's Hospital to renovate their cancer unit We have already raised £90,000,
- the Wesleyan Charity Advisory Committee (WCAC) who match staff fundraising activity resulting in over £1 3 million being donated to a range of good causes since its launch,
- a successful apprenticeship scheme that has seen 23 apprentices trained and offered a role and which has been rewarded with an Employer Star award by Birmingham Metropolitan College,
- supporting the Greater Birmingham Professional Services Academy, the first academy to support 16 to 19 year olds who are committed to a career in the professional services sector,
- the recycling of 100% of our general and confidential waste at Head Office, and
- a reduction in energy consumption and measures taken to move towards a best practice office environment for staff at Head Office

FUTURE DEVELOPMENTS

Prospects for the UK economy improved in the second half of 2013 and there are grounds for optimism looking forward However uncertainties remain, both economic and political, and there is still considerable pressure on disposable incomes particularly in the public sector which affect a significant proportion of our customers
The Government proposed far-reaching changes to pensions and ISAs in the Budget on 19 March 2014 and we are assessing the implications of these changes for customers and our products and services
This will require some adjustments to our 2014 plans, but the financial impact on the Group is not expected to be significant

Notwithstanding these notes of caution the Society remains confident that there is still plenty of scope for steady but controlled growth in all areas of the Society's business, including from the purchase of Practice Plan in October 2013, and the 2014 income budget agreed by the Board has been set on this assumption
Where suitable opportunities arise this will be supplemented by acquisitions, particularly in areas where it is felt our operations are currently sub-scale

Given the strength of markets in 2013 we should not assume that similar levels of returns on equities will be achieved in 2014 but our investment team continue to believe that our long-term, low turnover approach will produce competitive investment returns in the future

Product development, efficiency and service improvement will feature heavily in 2014 as we seek to build on the success of recent years and lay stronger foundations for further growth in the future supported at all times by financial strength and underpinned by a strong risk and governance framework

PRINCIPAL RISKS AND UNCERTAINTIES

Accepting risk is fundamental to the delivery of the Society's strategic objectives, including the delivery of attractive returns for its policyholders In addition to the return on their investments, with profits policyholders are credited with the profits or charged with the losses from a range of business activities including profits or losses from non-profit business and a share of the profits/losses of the Society's subsidiary companies The Society has governance structures and processes in place to actively identify, manage and monitor risks and its approach to risk management is set out on pages 51 to 58 The Board believes that the principal risks and uncertainties facing the Society at the time of writing this report are as set out below, together with the actions taken to manage and mitigate them

AREA OF RISK	PRINCIPAL RISK AND UNCERTAINTY	RISK MITIGATION AND MANAGEMENT
Financial markets and economic conditions The performance of investment markets and shifts in economic conditions affect the returns that we are able to generate for policyholders and our financial strength	Stock market volatility leads to negative investment performance in the With Profits Fund and impacts our financial strength	The With Profits Fund is invested in quoted company shares and commercial property, which are normally expected to have the best long-term growth prospects based on historical performance, although this is no guarantee of future performance We aim to reduce the effect of short-term fluctuations on with profits policies by "smoothing" where in periods of good investment growth we may keep some of the growth back What we have kept back would then be distributed in periods of poor investment growth, to cushion the fall in returns Smoothing can only adjust for short-term fluctuations because we need to be able to balance out the good and bad periods In order to manage our exposure to market risk we set limits on the Society's exposure to equities in aggregate and monitor exposure by geography and counterparty We have also put in place a financial derivative to mitigate the impact of stock volatility on our financial strength
	Interest rates are at historically low levels and may remain at these levels for an extended period Interest rates, in particular those for the medium or long term, could also fall further The falls in interest rates would increase the Society's liabilities, potentially impacting the Society's financial strength	In order to reduce our exposure to changes in interest rates, assets and liabilities are partly 'matched' by type and duration so that they respond in a similar way to changes in investment conditions Investment conditions and outlook are closely monitored by Executive and Board Committees and further mitigating action will be taken where necessary
	A major and prolonged economic downturn and/or stock market crash leads to a failure to meet targets and to a significant under-performance of the Society's business plan	As part of developing our 2014 business plan we modelled a range of scenarios impacting different products and identified management actions that could be taken to mitigate their impact if they should arise We closely monitor the achievement of our business plan through our governance structures so that any mitigating actions required can be taken in a timely way

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

AREA OF RISK	PRINCIPAL RISK AND UNCERTAINTY	RISK MITIGATION AND MANAGEMENT
Counterparty failure We are exposed to the risk of failure or default of one or more of our counterparties	We invest in debt securities and other assets and place money on deposit with banks in order to meet our obligations to policyholders In addition, derivatives and reinsurance are used to a limited extent to mitigate some financial and other types of risk As a result of this activity exposures can arise to issuers of debt and other financial instruments	We manage this risk by setting limits on the amounts that may be invested in different asset classes and monitor exposure to any single counterparty Limits on the amount that can be placed with individual banks are approved by the Board We actively monitor and report against these limits and have trigger levels in place to ensure prompt management action Where possible, significant counterparty exposures, for example in respect of derivatives, are mitigated by the use of collateral
People The Society's performance and development depends on its staff	The industry in which we operate has a robust regulatory agenda which requires ongoing activity to maintain our compliance and be competitive There is an expectation of our staff to deliver against these challenges so that we can continue to offer our customers quality services and products We need to ensure that our people have the appropriate skills and support to perform	Both Executive and Board have regular discussions on issues in this space Much of our major change activity is organised via projects, with a strong project management approach utilised Robust recruitment procedures apply to ensure new appointments are suitable for the role Each person has a regular one-to-one meeting with their manager, where their overall workload is discussed, along with their future learning and development needs
Changes in our key target markets Changes affecting customers in the Society's key target markets can affect the profits that we are able to generate for policyholders	As part of the public sector spending cuts, salary levels for doctors and teachers have been frozen and there is pressure on GP budgets The changes that are being made to the NHS and Teachers' Pension Schemes include an increase in employee contributions, further reducing the real disposable income of customers in these markets This may impact persistency and our ability to deliver new business growth	We closely monitor changes affecting our target markets as part of our strategic and business planning process We assess their potential impact with input from our specialist Advisory Boards and through our scenario testing so that mitigating actions can be identified if required and taken in a timely way We are continuing our expansion into the teachers and lawyers markets to reduce our dependence on the medical markets over the longer term Delivery of our business plan is monitored through our governance structures In 2013, we purchased Practice Plan, which enables us to provide a more complete product range to dentists and gives us a less volatile income stream

AREA OF RISK	PRINCIPAL RISK AND UNCERTAINTY	RISK MITIGATION AND MANAGEMENT
Legislation and Regulation Changes in regulation or legislation may have a detrimental effect on the Society's strategy, profitability or capital position	The Retail Distribution Review (RDR), the rules for which came into force at the end of 2012, changed the regulations for the provision of sales advice for retail investment products and the relationship between financial consultants and manufacturers of these products Our experience in the first year has confirmed that the Society's distribution model is well placed to succeed in the post-RDR environment and initial feedback from customers on our post-RDR proposition has been positive However, a number of risks and uncertainties remain including the longer-term response of customers and competitors to the changes and the potential for increased demand for advisers that have achieved the higher level of qualifications required under RDR resulting in an increased turnover of staff	We will continue to monitor the market and customer feedback closely through executive committees and take action where necessary to ensure that our proposition remains competitive and continues to meet the needs of our target customers
	Solvency II will lead to a fundamental change in the way that insurance companies are required to calculate their regulatory capital and manage risk It is now to take effect from 1 January 2016 The Society manages its capital to withstand a much higher level of risk than is required for Solvency II	We are not expecting at this stage that Solvency II will require significant changes to our business model but the improved risk and capital management practices that we have introduced as part of our Solvency II activity have enabled us to operate more efficiently Project progress and legislative developments are closely monitored through project and executive steering committees Additionally there is regular engagement with the Prudential Regulation Authority on this topic
	In December 2012 the FSA presented a change in approach to how its rules on with profits business would affect mutuals in a consultation paper CP12/38 Whilst some uncertainty remains until the new rules are finalised by the Financial Conduct Authority (the new regulator), the proposals allow for a range of responses both for ongoing management and in the event that the Society was faced with a decline in with profits business in the future	We support the FSA's revised proposals outlined in CP12/38 Once the final paper is published, we will review our options and determine what course of action to take

Note 2 on page 51 describes the specific risk types to which the Society and its policyholders are exposed and our approach to managing those risks so as to ensure that the residual risk exposures are within acceptable tolerances agreed by the Board Note 13 on pages 69 to 74 includes a sensitivity analysis setting out how changes in a range of risk factors may impact our capital

By order of the Board

Craig Errington
Chief Executive

27 March 2014

BOARD OF DIRECTORS
NON-EXECUTIVE DIRECTORS

IMAGE REMOVED

Bryan Jackson, CBE (b) (d)
Chairman

Bryan Jackson was appointed a Non-Executive Director in May 2007 and became Chairman in May 2010 He was the Managing Director of Toyota Motor Manufacturing (UK) Limited until his retirement in 2004 He is currently a Non-Executive Director of Unipart Group, Deputy Chairman of Unipart Manufacturing Group, Chairman of Sharing in Growth, a programme to raise capability in the aerospace sector, and for the period 1 April 2013 to 31 January 2014, Chairman of the Royal Orthopaedic Hospital Birmingham Foundation Trust Bryan received the CBE for services to economic development and manufacturing in the 2012 New Year Honours

IMAGE REMOVED

Keith Nicholson, FCA (a) (c)
Deputy Chairman, Senior Independent Director and Chairman of the Audit Committee

Keith Nicholson joined the Society's Board in September 2009 He retired from his role as partner at KPMG LLP in early 2009 with over 25 years of experience in the insurance and retail banking sectors He is also Chairman of Liberty Syndicate Management Limited, Deputy Chairman of The Equitable Life Assurance Society and Senior Independent Director of Just Retirement Group plc.

IMAGE REMOVED

Chris Brinsmead, BSc, MSc (b)
Chairman of the Remuneration Committee

Chris Brinsmead joined the Society's Board on 1 April 2010 He has over 30 years' experience gained nationally and internationally in the pharmaceutical industry, including seven years as President of AstraZeneca Pharma UK He was previously Chairman of AstraZeneca Pharma UK and President of the Association of the British Pharmaceutical Industry Chris is currently a business adviser on Life Sciences to the Government, a Non-Executive Director at Domino Printing Sciences plc, United Drug plc, Kinapse Limited and Chairman of Diagnostic Capital Limited

IMAGE REMOVED

Martin Bryant, MA, MBA (a) (c) (d)
Chairman of Wesleyan Bank Limited

Martin Bryant joined the Society's Board in June 2011 Martin spent 13 years working for The Boots Group in a number of positions including Group Director of Business Development. Other previous roles include Chief Executive at The Shareholder Executive, which provided corporate finance advice for 27 businesses (government owned) with an asset base of £20bn, Strategy Director at the Home Office and Chief Operating Officer of BP Retail. He has a portfolio of non-executive interests spanning public, private and not-for-profit sectors Martin joined the Board of Wesleyan Bank Limited in September 2012 and became Chairman from 1 January 2013

IMAGE REMOVED

Philip Green (b) (d) (e)
Chairman of the With Profits Committee

Philip Green joined the Society's Board on 1 January 2010 He is Chairman of an International Consultancy company focused on financial services Philip has extensive global experience working within the insurance sector Formerly President and CEO of LIMRA Europe until standing down in 2013 Philip worked for American International Group (AIG) until 2005 initially as Senior Vice President Marketing and Distribution at ALICO and latterly as Executive Vice President and Chief Agency Officer for AIA. Prior to AIG Philip worked for 18 years at Sun Life of Canada culminating in responsibility for Individual Insurance in the UK.

IMAGE REMOVED

Nigel Masters, FIA (a) (c) (e)
Chairman of the Risk Committee

Nigel Masters joined the Society's Board in November 2012 Nigel has more than 35 years' experience working within the life insurance industry and is a past president of the Institute of Actuaries. He has previously worked as group chief life actuary at Zurich Financial Services Nigel also spent 14 years at PwC where he undertook extensive mergers and acquisition work and advised on international financial reporting He currently manages his own business providing strategic and actuarial consultancy services. He is a Non-Executive Director of Homeowners Friendly Society

KEY TO MEMBERSHIP OF PRINCIPAL BOARD COMMITTEES

(a) Audit
(b) Remuneration
(c) Risk
(d) Nominations
(e) With Profits

PROFESSIONAL ADVISERS

Solicitors
Coley & Tilley,
Neville House,
14 Waterloo Street,
Birmingham B2 5UF

Independent Auditors
PricewaterhouseCoopers LLP,
1 Embankment Place,
London WC2N 6RH

Bankers
Lloyds Banking Group Plc,
25 Gresham Street,
London EC2V 7HN

REGISTERED OFFICE

Colmore Circus,
Birmingham B4 6AR
Registered Number ZC000145

BOARD OF DIRECTORS
EXECUTIVE DIRECTORS, CHIEF ACTUARY AND COMPANY SECRETARY

IMAGE REMOVED

Craig Errington, CDir, FIoD (d)
Chief Executive

Craig Errington, who was awarded Overall UK Director of the Year by the Institute of Directors in 2011, joined the Society in 1991 He received several promotions through the ranks of the sales force before being appointed to the Board in 2002 as Group Sales Director and in April 2005 was appointed Chief Executive He is Chairman of the Society's Executive Committee, Wesleyan Financial Services Limited, Wesleyan Unit Trust Managers Limited, Practice Plan Holdings Ltd and the Medical and Lawyers Advisory Boards Craig is also a Director of the Association of Financial Mutuals, and Chairman of the Aston Reinvestment Trust

IMAGE REMOVED

Clive Bridge, BSc, FCIPD, FIoD, CDir
Group Operations Director

Clive Bridge joined the Society in January 2009 as Director of HR and was appointed to the Board on 24 September 2010 as HR and Corporate Planning Director Clive became Chief Operating Officer of Manufacturing in September 2011 and was appointed Group Operations Director in November 2013 Clive has responsibility for Life & Pensions, Manufacturing Planning, the Wesleyan Bank and Practice Plan Prior to this Clive worked for over 18 years at Toyota Motor Manufacturing in a number of roles, culminating as Board Director for HR and Corporate Affairs

IMAGE REMOVED

Rob Green, BA, ACA
Group Finance Director

Rob Green joined the Society's Board in February 2012 Prior to this he worked for Lloyds Banking Group and, from 2006 to 2010, Coventry Building Society where Rob was the Finance Director

A chartered accountant, having trained at Coopers & Lybrand (now PricewaterhouseCoopers LLP), Rob has also held senior finance roles at Marconi and BT As Group Finance Director at Wesleyan, Rob has overall responsibility for financial management and investments

IMAGE REMOVED

Samantha Porter, DipIoD
Group Sales and Marketing Director

Samantha Porter joined Wesleyan in 1995 and was appointed to the Board in 2011 She has responsibility for the customer proposition, sales and marketing strategy Sam has overseen the delivery of a number of key projects for Wesleyan, including the successful delivery of the Retail Distribution Review She is currently leading a wide-ranging project that will create significant growth and further improve the customer experience Sam was named Young Director of the Year at the West Midlands Institute of Directors (IoD) Director of the Year awards in 2012 and was highly commended at national level.

IMAGE REMOVED

Liz McKenzie, BEng, DipIoD
Group Corporate Services Director

Liz McKenzie joined Wesleyan in October 2010 as Head of Corporate Planning Prior to this she spent 19 years at Toyota in a variety of roles, including Business and Production Planning, Project Management and Continuous Improvement. Twelve months after joining the Society, Liz was made Director of HR and Corporate Planning.

She joined the Board in January 2014 as Group Corporate Services Director with responsibility for the Company Secretary, IT, HR and Corporate Planning functions. Liz is also chair of Wesleyan's Charity Advisory Committee, which has helped the Society raise more than £1.3m for local and national charities.

IMAGE REMOVED

Tim Pindar, BA, FIA
Chief Actuary

Tim Pindar qualified as an actuary in 1988 He joined Medical Sickness Society in 1989 and moved into the Society upon the merger of the two Societies in 1997 He became the Society's Appointed Actuary in 2002 and since 2004 has had overall responsibility for the provision of all actuarial and technical services to the Society He is the Society's Actuarial Function Holder and With Profits Actuary Tim has served on several actuarial working parties and co-authored a number of actuarial papers.

Doug Bright, MA, FIA
Company Secretary

Doug Bright joined Wesleyan from Eagle Star Insurance in 1987 He qualified as an actuary in 1988 after studying Maths at St John's College, Oxford

Doug has held a number of senior roles with the Society including Head of Actuarial Services, Head of Product Strategy and Development and Head of Risk and was appointed Company Secretary in January 2014 In addition to his company secretarial duties he is also responsible for corporate governance issues.

CORPORATE GOVERNANCE

1. Introduction

The Society continues to aim to meet the highest standards in corporate governance The Board is responsible to the Society's policyholders for good corporate governance and has adopted the relevant provisions of the latest Annotated Version of the UK Corporate Governance Code ("the Annotated UK Corporate Governance Code") which has applied since 2012

This report summarises the Society's governance arrangements and continued enhancements and, in accordance with the latest Annotated Code, identifies those areas of that Code where the Society does not comply for which an explanation is given

2. Companies Act 2006 and Society's Rules

The Society is an unregistered company, being incorporated under its own Act of Parliament However its Rules have adopted, where appropriate, the provisions of the Companies Act 2006

3. Governance by Directors

The Board

The Board meets regularly to lead, control and monitor the overall performance of the Society, including high-level consideration of succession planning Senior management provides the Board with appropriate and timely information and is available to attend meetings and answer questions The Chief Actuary attends all Board meetings There is a formal schedule of matters reserved for the Board's decision The roles of Chairman and Chief Executive are separated and the Chairman has primary responsibility for the effective functioning of the Board, authority is delegated to the Chief Executive for implementing strategy and managing the Society

The most recent evaluation of Board process, including the performance of the Chairman, was carried out in 2012 in line with industry guidance All members of the Board contributed to the evaluation, as did the Chief Actuary and the Company Secretary The next evaluation of Board process is planned for later in 2014

The Chief Actuary makes recommendations on bonus and payout levels in relation to the different classes and generations of policyholders It is the Board's responsibility, based on these recommendations, to seek to achieve fairness between these different classes and generations

The Chief Actuary also provides advice on other matters relating to obligations to the policyholders In addition, he reports to the Audit Committee and to the Board on the Society's regulatory returns to the PRA The Chief Actuary acts as the Reporting Actuary for the purposes of these Accounts

The Board and its Committees have access to the Chief Actuary and Company Secretary They may also obtain independent professional advice, at the Society's expense, about any matter concerning the Society relevant to their duties

The current Board members are described on pages 14 and 15 All Directors hold policies with the Society in accordance with the Rules of the Society The Remuneration Report on pages 22 to 33 explains the basis of remuneration of the Executive and Non-Executive Directors

The Chairman

The Chairman of the Board since May 2010 is Bryan Jackson In addition to his responsibilities with the Society and its subsidiaries, Bryan's other significant commitments are as a Non-Executive Director of the main Board of the Unipart Group of Companies, Deputy Chairman of Unipart Manufacturing Group, Chairman of Sharing in Growth, a company established to deliver supplier developments in the aerospace sector, and for the period 1 April 2013 to 31 January 2014 Chairman of the Royal Orthopaedic Hospital Birmingham Foundation Trust

Executive Directors

The Board had five Executive Directors, including the Chief Executive, at 31 December 2012 Steve Deutsch, Managing Director Wesleyan Bank, stood down from the Board on 1 November 2013 With effect from 13 January 2014, Liz McKenzie, Group Corporate Services Director, was appointed to the Board

Non-Executive Directors

There are currently six Non-Executive Directors on the Board, including the Chairman, following David Rutter's retirement from the Board on 31 January 2013

Their diverse experience, skills and independent perspective provide effective review and challenge of the Society's activities The Annotated UK Corporate Governance Code requires that at least half of the Board should comprise Non-Executive Directors, excluding the Chairman The Society has complied with this requirement since 20 October 2012 and expects to continue to do so The Board remains confident that the strength of its independent Non-Executive Directors continues to be sufficient to ensure that an individual or small group cannot dominate the Board's decision-making

The Chairman, Bryan Jackson and the Deputy Chairman, Keith Nicholson, are elected by the Board The Board appointed Keith Nicholson as Senior Independent Director in May 2010 The Board considers all Non-Executive Directors to be independent of the Society in all matters notwithstanding their policies, their fees and, in the case of David Rutter (prior to his retirement on 31 January 2013), his pension derived from previous employment with the Society These assessments are based on the character of the individuals in respect of independent mindedness when it comes to the raising of relevant issues and the rigorous process of assessment, judgement and follow through Great emphasis is also placed on their knowledge and experience of the industry

Appointments to the Board
All appointments are subject to review by the Board, as advised by the Nominations Committee It is anticipated that a minimum term of three years will be served with a further term subject to the agreement of the Board Directors follow an induction programme on joining the Board and further training on specific subjects is undertaken as necessary Directors must retire and seek re-election at the first Annual General Meeting (AGM) following appointment With effect from the May 2013 AGM all Directors submit themselves for re-election annually

Board Committees
The Board formally delegates specific responsibilities to a number of Board Committees, supported by senior management

Audit Committee
Keith Nicholson was appointed as Chairman of the Committee from 1 December 2009 and has continued to serve since that date The Committee currently comprises two other Non-Executive Directors

The Audit Committee assists the Board in fulfilling its responsibilities in respect of the Annual Accounts and Regulatory Returns to the PRA, including those for subsidiary companies It also acts as the Audit Committee for Wesleyan Bank Limited

The Committee keeps under review the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters The Society has introduced the opportunity for staff to contact an independent confidential advice line

The Committee's Terms of Reference are available on request and from the Society's website – **www wesleyan co uk**

The Committee's report is set out on page 38

Risk Committee
The Risk Committee's principal role is to consider the risks faced by the Society and its subsidiary companies and to advise the Board The Risk Committee was chaired by David Rutter until 31 January 2013 from which date Nigel Masters was appointed Chairman The Committee currently comprises two other Non-Executive Directors, one of whom, Keith Nicholson, is the Chairman of the Society's Audit Committee The Committee also acts as the Risk Committee for Wesleyan Bank Limited Other attendees include the Chief Executive, the Group Finance Director, the Chief Actuary, the Chief Risk Officer and the Head of Internal Audit

It is the Chairman's practice to meet separately with the Chief Risk Officer ahead of most meetings The Committee's main activities during 2013 included

- monitoring risk strategy, risk appetite and individual limits for specific types of risk,
- reviewing and assessing the risk oversight provided by management in connection with current and emerging risk exposures,
- assessing the impact of management's strategic plans on the risk profile of the Group,
- monitoring the effectiveness of management in identifying and recording the principal risks,
- gaining assurance that an appropriate culture in relation to the management of risk continued to be maintained, with particular focus on performance measurement,
- scrutinising the Individual Capital Assessment (ICA) prepared by management and recommending its acceptance to the Board, and
- receiving reports from the Chief Risk Officer on a wide range of issues, including regulatory change

The Committee's Terms of Reference are available on request and from the Society's website – **www wesleyan co uk**

CORPORATE GOVERNANCE
CONTINUED

Remuneration Committee
Chris Brinsmead was appointed Chairman of the Committee from 1 January 2011 and has continued to serve since that date The Committee comprises two other Non-Executive Directors with the Chief Executive and the Group Corporate Services Director in attendance as required The Committee is responsible for the terms of remuneration for Executive Directors, other members of the Executive and Non-Executive Directors, including arrangements for short- and long-term incentive payments and for ensuring that risk is appropriately taken into account in all aspects of remuneration for Executive Directors and other members of the Executive With effect from 1 January 2013, the Committee also exercises oversight over the Society's Remuneration Policy No individual takes part in the setting of their own remuneration The Committee's Terms of Reference are available on request and from the Society's website – **www wesleyan co uk**

The Committee's report is set out on pages 22 to 33

Nominations Committee
Bryan Jackson, Chairman, chairs the Nominations Committee The Committee comprises two Non-Executive Directors and the Chief Executive with the Group Corporate Services Director in attendance as required The Committee regularly reviews the structure, size and composition of the Board, in particular the balance of skills, knowledge and experience on the Board, and considers succession planning for Directors and other Senior Executives The Committee has considered the current balance of the Board and determined that it continues to be appropriate to the requirements of the business

The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise Potential candidates are identified using a variety of methods, including external consultants, and undergo a rigorous interview and appraisal process before appointment to the Board

Prior to the Board recommending a Director for re-election at the AGM, the Nominations Committee considers their appointment giving due regard to their performance and ability to contribute to the Board in light of the knowledge, skills and experience required to ensure the continuing balance and progressive refreshing of the Board

Other Board members with particular skills relevant to the nomination of new appointments may be invited to attend for all or part of any meeting, as and when appropriate Bryan Jackson, as Chairman of the Society's Board, would not chair the Committee when it deals with the matter of succession to the Chairmanship of the Society The Committee's Terms of Reference and the terms and conditions of appointment of Non-Executive Directors are available on request and from the Society's website – **www wesleyan co uk**

With Profits Committees
In 2004 the Society established two With Profits Committees to bring independent judgement to the assessment of compliance with the two Principles and Practices of Financial Management documents ("PPFMs") regarding the management of with profits business and to monitor how any competing or conflicting interests between different groups of policyholders are resolved One Committee covered the Medical Sickness Society Fund, which is closed to new business and, in addition to a Non-Executive Director until 31 January 2013, included from 1 January 2013 an external appointee, a former member and one (two until 31 January 2013) of the current members of the MSS Fund Monitoring Committee which was established at the time of the 1997 merger with Medical Sickness Annuity & Life Assurance Society Limited The other Committee covered the Open Fund in which all new with profits business has been issued since the date of the merger It was their role to advise the Board on any issues arising as to the management of the Society's Open Fund with profits business Members of the Open Fund Committee are appointed by the Board and were made up of two Non-Executive Directors and two external appointees (three from 1 January 2013) With effect from 1 July 2013 the two Committees were merged into a single Committee with responsibility for ensuring compliance with the PPFMs of both the MSS Fund and the Open Fund, regarding the management of with profits business The Committee's membership, which is subject to Board approval, currently comprises two Non-Executive Directors, one of whom Phil Green is the Chairman, and three external appointees The Committee can engage external professional advisers to assist in delivering its objectives effectively The Committee's Terms of Reference and the PPFMs are available on request and from the Society's website – **www wesleyan co uk**

Subsidiary Company Governance
The Society's main subsidiaries are set out in Note 21 on pages 81 and 82 of these Accounts The Group is managed as far as possible as an integrated whole The Boards of Wesleyan Financial Services Limited and Wesleyan Unit Trust Managers Limited are chaired by the Society's Chief Executive with other senior executive colleagues appointed to the particular Board relevant to their role The Board of Wesleyan Bank Limited is chaired by Martin Bryant, an independent Non-Executive Director of the Society Other Directors currently include the Managing Director and another two independent Non-Executive Directors with significant experience of the banking industry

COMMITTEE MEMBERSHIP AND ATTENDANCE AT MEETINGS

	Society's Board	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	With Profits Committee
Meetings in the year	8	7	8	4	3	6
Non-Executive Directors						
Bryan Jackson	8	–	–	4	3	–
David Rutter	1/1	2/2	2/2	–	–	–
Keith Nicholson	7/8	7	8	–	–	–
Chris Brinsmead	8	–	–	4	–	–
Martin Bryant	8	7	8	–	3	–
Philip Green	8	–	–	4	3	6
Nigel Masters	8	7	8	–	–	6
Executive Directors						
Craig Errington	8	–	–	–	3	–
Clive Bridge	8	–	–	–	–	–
Steve Deutsch	6/6	–	–	–	–	–
Rob Green	8	–	–	–	–	–
Samantha Porter	8	–	–	–	–	–
Chief Actuary						
Tim Pindar	8	–	–	–	–	–

4. Management of the Society

In accordance with the Society's Rules, the Board has delegated authority to the Chief Executive for implementing strategy and managing the Society The Chief Executive has formed Executive Committees to assist him in carrying out his responsibilities
The Executive Committee comprises the Chief Executive, the other Executive Directors and senior management and meets regularly to manage business activities Since January 2010 the Board has delegated to the Committee the power to make changes to with profits payouts during the year to increase the Society's responsiveness to changes in the markets Papers are prepared and presented to the Board after agreement by the Executive

5. Accountability and Audit

The Board of Directors is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness, including any outsourced activities This system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material loss or misstatement

The Board actively seeks to minimise the exposure to unnecessary risks and, in doing so, takes into consideration the materiality of the risks to be managed and the cost effectiveness of the relevant aspects of the necessary risk mitigation (including the use of derivatives and internal control) in light of the particular environment in which the Society operates

Control environment
The Society is committed to the highest standards of business ethics and conduct, and seeks to maintain these standards across all of its operations The governance manual is subject to regular review, confirming the governance structure for the business and the guiding policies for the organisation

An appropriate organisational structure for planning, executing, controlling and monitoring business operations is in place in order to achieve the Society's objectives and comply with laws and regulations The structure is reviewed and updated on a regular basis, taking into account the pressures and conflicting priorities on the Society's business, to ensure that it provides clear responsibilities and control for key areas Separate internal functions have been established for internal audit, compliance, risk management and change programme management Through this structure the Board receives an overall summary and recommendation of control effectiveness based on the Risk Assessment and Corporate Audit reports

CORPORATE GOVERNANCE
CONTINUED

Control procedures
The Society operates a number of control procedures to safeguard the policyholders' assets and investments, including

- A Group Performance Review meeting, chaired by the Chief Executive, to consider significant risk and control issues in more depth regarding,
  - The work of the Risk function and of Corporate Audit and the timely resolution of actions agreed as a result of their work and that of the external auditors
  - Compliance with laws and regulations, business policies and practices, codes of conduct and customer agreements including changes in the regulatory environment
  - The business continuity plans that the Society has developed to manage situations in which buildings, systems or significant staff are unavailable, for example, in the event of a flu pandemic or the loss of utilities
- A risk assessment methodology
- Physical controls, segregation of duties and reviews by management
- Reviews carried out by Corporate Audit (refer to section headed "Internal Audit")
- Reports from the Society's Head of Compliance Oversight function who has oversight of the compliance with the FCA's/PRA's business standards on a day-to-day basis
- Preparation and monitoring of detailed budgets for functional business segments
- A change programme management function to structure, co-ordinate, monitor and report on the very significant projects that the Society is undertaking

Information and communication
Regular management information in respect of financial performance, customer service, complaints handling and investment performance is prepared and reviewed by senior management, the Executive and the Board Additionally, projects have their own management information processes reviewed by senior management, the Executive and the Board

The Society prepares an annual business plan and budget to assist in the monitoring of results Actual performance against these plans is actively monitored and, where appropriate, corrective action is agreed and implemented

The Board receives regular reports on compliance with FCA regulation over its sales and marketing functions

Risk management
Key risks are referred to in the Strategic Report under "Principal Risk and Uncertainties"

Details of other risks to the Society and its approach to risk management are set out in Note 2 of the Notes to the Accounts

Internal Audit
The Society has an internal audit capability (Corporate Audit) to provide assurance over the operation of the system of internal control It is committed to operating in line with the best practice guidelines set out by the Chartered Institute of Internal Auditors It carries out reviews on a risk-based cycle The programme of internal audit reviews is based on the Society's Operational Risk and Control Assessment (ORCA) process and is designed to provide assurance that the risk mitigating actions identified by management and the ORCA are working effectively The results of internal audit reviews are reported to the relevant Executive Committee and to the Audit Committee

Monitoring and corrective action
The Risk function reports to the Chief Risk Officer, the Risk Committee and the Board on the results of the risk assessment including significant changes in the risk register and specific reports on elements of risk and their management as required

Assurance is provided to the Audit Committee on the effectiveness of the key controls through

- Reporting by the Society's internal audit function on the key controls reviewed
- The work of other independent advisers commissioned to report on specific aspects of internal control
- Reports provided by the Society's external auditors

The Audit Committee monitors the status of corrective actions for the improvement of the effectiveness of the system of internal control

6. (a) Policyholder Communications

The Board is committed to a policy of openness in its communications with policyholders During the year, the Board has sought to keep all relevant stakeholders informed on all major issues At its Annual General Meeting, the members of the Board are available to answer questions Separate resolutions are proposed on each issue so that they can be given proper consideration In compliance with the Code the Society publishes the results of the valid proxy votes received at each Annual General Meeting on its website Policyholders can gain access to the Society's Annual Report and Accounts and further information on the website at **www wesleyan co uk**

6. (b) Member Relations

The Society forwards notice of general meetings to members, together with a proxy form and a summary financial statement In addition the Society has established four Member Committees comprising doctors and dentists, junior doctors and dentists, teachers (NASUWT's Strategy Working Group) and lawyers which meet with management three times a year to discuss sales and marketing issues relevant to members/customers of the individual professions The management and Board are kept informed of these issues and any other views and concerns raised by these member groups All other relevant information is made available in the "Member Relations" section of the main website The Board is always interested to hear members' views and these should be channelled through the Company Secretary **(doug bright@wesleyan co uk)**

7. Going Concern

The Directors are responsible for making a formal assessment as to whether the "going concern" basis is appropriate for preparing these financial statements The going concern basis presumes that the Society will continue to be able to meet its guaranteed obligations to policyholders and other creditors as they fall due To do this, the Society must have sufficient assets, not only to meet the payments associated with its business, but also to withstand the impact of other events that might reasonably be expected to happen

The Directors have examined the various issues relevant to the going concern basis and will take proactive action to maintain regulatory solvency at all times

Furthermore the financial position of the Society has been projected under a range of economic scenarios and the Directors are confident of the Society's ability to manage all but the most extreme scenarios

Accordingly the Board considers it has given due consideration to all the potential risks and possible actions available to it and following receipt of a report and recommendation from the Audit Committee has concluded that it remains appropriate to prepare these financial statements on a going concern basis

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

Dear Member

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report

We have included some additional information this year to help members understand what our directors could earn, the factors that we take into account when setting directors pay, benefits and bonuses and how the performance of the business is monitored The main structural change to the report has been to divide it into two parts

- A Remuneration Policy Report – setting out the key elements of remuneration and how they support delivery of the Society's short term and long term strategic goals, and
- An Annual Remuneration Report – including details of the pay and benefits provided to the directors and how the Remuneration Committee has operated

The Society delivered a performance broadly in line with its targets in 2013 despite a significant amount of upheaval caused primarily by the implementation of the Retail Distribution Review The Society's achievements are set out on pages 4 to 10 It is this performance, the Society's strategic ambitions and the need to pay the right amount in order to attract and retain talented individuals while not overpaying that the Society has taken into account in setting pay and bonuses

The Society is committed to best practice in corporate governance and approval from members for the Remuneration Report will be sought through an advisory vote at the Annual General Meeting

On behalf of the Remuneration Committee, I recommend that you approve this report

Chris Brinsmead
Chairman of the Remuneration Committee
27 March 2014

Introduction

Our high level vision, to be the best in our chosen markets, is based on the following values and principles

- To be a strong and profitable business
- That provides specialist financial advice and solutions to meet the personal, professional and business needs of our chosen markets
- To be the provider of choice for customers
- And the employer of choice for employees

We want to embed continuous improvement and build a successful organisation based on our guiding principles Insight, Performance and Trust

We are a mutual and believe that this should have meaning and advantage for our customers and employees

In order to achieve our goal of being an 'Employer of Choice' we need to consider the total employment 'offer' including development, work life balance, communications and working environment as well as remuneration

With this in mind, it is essential that our remuneration approach is aligned to Society values and goals as it helps shape workforce culture, behaviour and performance

The policy for Directors' Remuneration follows the principles laid out in the Society Remuneration Policy

Our chosen values, strategy and the FCA Remuneration Code principles define our remuneration approach In line with the Society's remuneration policy, there are a number of key considerations

- Our overall target position in the market bearing in mind the need to attract and retain suitably skilled Directors, taking into account the Society situation,
- The balance between base salary, bonus, long term incentives and other benefits,
- The balance between short term and longer term reward,
- What behaviour and performance we should incentivise and reward, aligned with our business strategy and core values,
- How risk should be effectively managed,
- The degree of alignment between remuneration arrangements for Executives and other employees

In addition, from our members', policyholders' and employees' perspectives, our arrangements need to be transparent, understandable, fair, reasonable and proportionate

The structure of total remuneration is therefore focussed on a relatively high proportion of basic pay to variable pay

Achievement Level	Fixed vs Variable % of Total	Variable		Breakdown (% of salary)
On Target	80% 20%	Short Term	10%	25%
		Long Term Incentive Plan	15%	
Maximum	67% 33%	Short Term	20%	50%
		Long Term Incentive Plan	30%	

The remuneration structure is also aligned to the longer term interests of the Society and our policyholders

To protect the interests of members, the Remuneration Committee may amend any element of variable pay if it considers it appropriate in light of either the Society's overall performance, any adverse risk in the view of the Risk Committee or economic conditions

DIRECTORS' REMUNERATION POLICY REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

Directors' Remuneration Policy Report

Details of the main elements of Directors' remuneration are set out in the table below Other employees receive the same elements of pay and benefits apart from the Long Term Incentive Plan (LTIP) which applies to members of the Executive only

REMUNERATION POLICY TABLE

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To attract and retain high performing individuals to lead the Society	Base salary is reviewed annually, or more frequently if there is a significant change in an individual's role or responsibilities, or if another exception arises Base salary is considered using benchmark data as deemed appropriate by the Remuneration Committee (RemCo), at a minimum of every three years or if there is a significant change in role or responsibility Benchmark information will consider both proprietary and mutual companies Benchmark data will also be provided for a full package benchmark, including pension The benchmark data is provided to RemCo as a guide of market competitive range and will be considered as one factor in determining salary Other factors include ▸ level of experience/rewarding performance ▸ length in role ▸ Society affordability and performance ▸ ability to attract/retain ▸ pay awards for the Society's other employees ▸ prevailing market conditions	There is no maximum salary Increases in salary will normally be in line with those awarded to other Society employees but higher increases may be made, for example, to reflect ▸ Increase in scope of role or responsibility ▸ An Executive Director being moved to market positioning over time ▸ Changes in benchmark data	Subject to annual review of individual contribution and Society performance
Benefits	To operate a competitive benefits and pension structure that provides appropriate protection to our employees	Benefits currently provided are ▸ a car allowance or the provision of a car (including all maintenance costs) ▸ private medical cover for the individual and their spouse/partner ▸ medical screening ▸ Group product discounts (available to staff and directors on the same terms) ▸ death in service benefit of 4 x pensionable salary	There is no cap on the benefits provided and extra benefits may be added if considered appropriate However, the cost of these benefits is taken into account in assessing affordability	N/A

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Retirement benefits	To provide post-retirement benefits for participants in a cost effective manner	Executive Directors are either a member of the Society's defined benefit staff pension scheme or a member of the Society's contract-based defined contribution scheme Under the defined benefit staff pension scheme benefits are either based on final salary or career average revalued earnings (CARE) If the Lifetime Allowance and/or annual allowance are exceeded then unfunded pension benefits may be provided by the Society (for defined benefit scheme members) or a cash allowance is taken The nature of the pension benefit provided depends on the date that the Executive Director joined the Society and is the same as that provided to other employees	Final salary accrual rate of 1/60th of pensionable salary CARE accrual rate of 1 2%, 1 5% or 1 8% of pensionable salary depending on level of employee contribution (4 5%, 6 25% or 8%) Where cash allowances are provided in lieu of pension benefits they are based on the overall cost to the Society of providing the benefits foregone Defined contribution Society contributes an amount equal to the employee's contribution plus 2% subject to a maximum employer contribution of 10% The Society regularly reviews pension benefits for employees taking account of affordability and tax and legislative changes and may amend benefits for future service or introduce different levels or types of benefit for both new and existing Directors	N/A
Annual bonus	To ensure that there is an appropriate incentive for Executive Directors to meet the annual objectives of the business	Individual performance evaluations for bonus are recommended by the CEO following a similar procedure to other Society employees, considering the individual's contribution towards the Society's values and goals, engendering good risk and compliance management and customer outcomes This recommendation is discussed and concluded by RemCo and considered in light of the expected distribution of individual performances Performance evaluation of the CEO is recommended by the Society's Chairman with input from the other Non-Executive Directors The overall level of bonus payable is based on operating profit performance against budget	Overall cash payment of ▸ 0% of salary if Society performance is less than 80% of target, ▸ up to 10% of salary if Society performance is 80% of target with level of bonus depending on outcome of individual performance evaluation, ▸ up to 15% of salary if Society performance is 100% of target with level of bonus depending on outcome of individual performance evaluation, ▸ up to 20% of salary if Society performance is 120% or more of target with level of bonus depending on outcome of individual performance evaluation All payments of annual bonus are subject to approval by RemCo and are non-pensionable	Operating profit Individual performance evaluation based on contribution towards the Society's values and goals, engendering good risk and compliance management and customer outcomes RemCo may adjust payouts based on the evaluation of personal behaviours and any risk, compliance or other concerns

DIRECTORS' REMUNERATION POLICY REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Long Term Incentive Plan	To ensure that the remuneration package of Executive Directors and other members of the Executive reflects the long-term performance of the Society and members' and other customers' interests	Performance under the Long Term Incentive Plan is based on (i) Longer-term achievement of the Society's Business Plan, and (ii) Investment performance of the Society's Long Term Policyholder Fund	Cash payment of ▸ 0% of salary for performance assessed by RemCo as Not Acceptable and negative investment returns on the Society's Long Term Policyholder Fund ▸ 15% of salary for on target performance ▸ 30% of salary for consistent outstanding performance over the three-year period All payments under the LTIP are subject to approval by RemCo and are non-pensionable	Achievement of stretching financial and other objectives aligned to the Society's long-term strategy and values whilst not encouraging undue risk RemCo may adjust payouts based on the evaluation of any risk, compliance or other concerns

REMUNERATION POLICY FOR THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Element	Approach of the Company
Chairman fees	The principles adopted in determining the fees of the Chairman and other Non-Executive Directors are that they should be competitive, appropriate to attract and retain Directors of the necessary calibre, and reflect the responsibilities and time involved in Society matters
Non-Executive Director fees	Non-Executive Directors' remuneration comprises a specific fee, which includes extra amounts for specific additional responsibilities
Benefits	No benefits are provided to Non-Executive Directors other than Group product discounts which are available to staff and Directors on the same terms

Explanation of chosen performance measures and how targets are set for Executive Directors
The performance measures used in the determination of annual and long-term bonuses have been chosen for their alignment to strategy and the customer's experience

Annual bonus
The overall level of bonus payable is based on Group operating profit performance against budget The budgeted level of operating profit against which the amount of bonus payable is assessed is set by the Board before the end of the previous year and is intended to provide a stretching but achievable target

Long Term Incentive Plan (LTIP)
Performance under the LTIP is based on

(i) Longer-term achievement of the Society's Business Plan, and

(ii) Investment performance of the Society's Long Term Policyholder Fund

The Annual Business Plan covers

- financial performance for the Society and its policyholders,
- delivery of the customer proposition and achievement of desired customer outcomes,
- employee considerations,
- risk and governance framework and delivery

The Annual Business Plan is presented by the CEO and agreed by the Board including risk assessment and scenario analysis

Up to 20% of salary is linked to the achievement of the Annual Business Plan Performance is based on overall performance over the full three year life of the LTIP

Investment performance of the Society's Long Term Policyholder Fund is used to represent the sharing of our customer experience

Up to 10% of salary is linked to Long Term Policyholder Fund performance

Pay policy for other employees
The principles underlying the pay policy for Executive Directors set out in the table above apply to all of the Society's employees In particular

- the Society's total employment package needs to be sufficient to attract and retain high-calibre individuals As part of this, remuneration needs to be competitive compared to the market and reflective of performance of the individual and the Society,
- the remuneration package should be appropriately constructed so that it underpins the retention and motivation of key individuals,
- pay positioning will reflect the individual's role, responsibilities and performance as well as the Society's performance,
- annual bonus payments need to vary sufficiently to genuinely reflect performance fluctuations from year to year, taking into account not only financial performance, but also risk management and customer outcome A number of different annual bonus arrangements are in place reflecting the different nature and responsibilities of different business units and roles within the Society,
- bonus for employees should be based on Society and individual results, with quality measures to ensure customer appropriateness

Remuneration policy for new appointments
Remuneration packages for new director appointments will comply with the pay policy set out in the table above

New director appointments will be offered an appropriate package taking into account, but not exclusively, the following factors

- the need to attract and retain a suitable calibre of candidate,
- the remuneration of other employees,
- affordability of the proposal,
- the Society's core values, and
- prevailing market practice

Service contracts and payments for loss of office
Each Executive Director has a continuous service contract with the Society, which is considered appropriate for the requirements of the Group Compensation payable upon early termination (other than under the payment in lieu of notice provisions) would be based upon the contractual entitlement to salary and benefits subject to mitigation The notice period is 12 months by the Society and 12 months by the Executive Director, except for Rob Green who is required to give six months' notice

No Non-Executive Director has a service contract The notice period for Non-Executive Directors is one month by both the Society and the Director

DIRECTORS' REMUNERATION POLICY REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

Illustration of Remuneration Policy for 2014

The charts below illustrate the amounts that Executive Directors would be paid under three different performance scenarios

- **Minimum** – this shows the fixed elements of pay (salary, pensions and benefits)
- **On plan** – assuming we deliver target levels of performance against the measures set out in our variable pay plans
- **Maximum** – this assumes that our variable pay plans pay out in full – this would only occur if performance had been truly exceptional across all of the measures set

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Minimum performance	Fixed elements of remuneration only – base salary, benefits and pension
On plan performance	Annual bonus For illustrative purposes all Executive Directors have been assumed to be paid the same level of bonus (10% of salary) but the actual bonus payable to each Director would depend on the Remuneration Committee's evaluation of individual performance and would range from no bonus being payable (unacceptable performance) to 15% of salary (outstanding performance) Long Term Incentive Plan Expected amount of award to vest in 2015 based on actual performance for 2012 and 2013 and on plan performance for 2014
Maximum performance	Annual bonus For illustrative purposes all Executive Directors have been assumed to be paid the same level of bonus (20% of salary) but the actual bonus payable to each Director would depend on the Remuneration Committee's evaluation of individual performance and would range from no bonus being payable (unacceptable performance) to 20% of salary (outstanding performance) Long Term Incentive Plan Expected amount of award to vest in 2015 based on actual performance for 2012 and 2013 and outstanding performance for 2014

Wider workforce remuneration

In setting remuneration policy, there is a strong degree of alignment between the Executive Directors and the wider workforce Any general increase in salaries is applied to both Executive Directors and employees

The employees are engaged through the Staff Forum and information cascades The wider employee population have not been consulted on the content of the Remuneration Policy statement but the overall pay review process has been communicated and feedback sought from unions, Staff Forum and staff cascades and communicated to the Executive and Board

Member engagement

In accordance with the Annotated Version of the UK Corporate Governance Code ("the Annotated UK Corporate Governance Code") an advisory vote on the Remuneration Report will be sought from the members at the AGM

ANNUAL REPORT ON REMUNERATION

Single Figure of Remuneration for each Director

The remuneration of the Directors of Wesleyan Assurance Society for the year ended 31 December 2013 and the previous year is set out in the tables below This is audited information

Director	Salary/fees (a)	Benefits (b)	Bonus (c)	Long term incentives (d)	Pension (e)	Sub-total-ongoing	Other (f)	Total remuneration
Year ended 31 December 2013, £'000								
Executive								
Craig Errington	**412**	**18**	**59**	**69**	**220***	**778**	**300**	**1,078**
Clive Bridge	**225**	**12**	**26**	**35**	**68**	**366**	**-**	**366**
Steve Deutsch (until 31 October 2013)	**196**	**10**	**21**	**34**	**59**	**320**	**-**	**320**
Rob Green	**225**	**7**	**26**	**-**	**23**	**281**	**-**	**281**
Samantha Porter	**180**	**12**	**17**	**25**	**263***	**497**	**-**	**497**
Non-Executive								
Bryan Jackson	**101**	**-**	**-**	**-**	**-**	**101**	**-**	**101**
David Rutter (retired 31 January 2013)	**5**	**-**	**-**	**-**	**-**	**5**	**-**	**5**
Keith Nicholson	**61**	**-**	**-**	**-**	**-**	**61**	**-**	**61**
Chris Brinsmead	**47**	**-**	**-**	**-**	**-**	**47**	**-**	**47**
Martin Bryant	**47**	**-**	**-**	**-**	**-**	**47**	**-**	**47**
Phillip Green	**47**	**-**	**-**	**-**	**-**	**47**	**-**	**47**
Nigel Masters	**47**	**-**	**-**	**-**	**-**	**47**	**-**	**47**
Year ended 31 December 2012, £'000								
Executive								
Craig Errington	392	15	29	-	260*	696	-	696
Clive Bridge	200	12	15	-	64	291	-	291
Steve Deutsch	230	12	12	-	82	336	-	336
Rob Green (appointed 20 February 2012)	173	4	13	-	17	207	-	207
Michael Lewis (resigned 19 October 2012)	195	7	-	-	5	207	-	207
Samantha Porter	145	12	14	-	67*	238	-	238
Non-Executive								
Bryan Jackson	99	-	-	-	-	99	-	99
David Rutter	59	-	-	-	-	59	-	59
Keith Nicholson	59	-	-	-	-	59	-	59
Chris Brinsmead	46	-	-	-	-	46	-	46
Martin Bryant	46	-	-	-	-	46	-	46
Phillip Green	46	-	-	-	-	46	-	46
Nigel Masters (appointed 1 November 2012)	8	-	-	-	-	8	-	8

The figures in the single figure table above are derived from the following

(a) Salary/Fees	Salary and fees paid during the period
(b) Benefits	Value of benefits in kind provided during the period
(c) Bonus	Payments under the annual bonus scheme based on the Society's performance in 2013 represented an amount equivalent to 12 1% of salary based on performance of 98% of budgeted operating profit (2012 7 1% of salary based on performance of 86% of budget) Before the introduction of the LTIP in 2011, the maximum amount of annual bonus was 30% of salary The bonus was payable in one-third instalments over a three-year period The amount of the deferred payments was adjusted to reflect the performance of the Society's With Profit Fund over the period but no additional performance conditions needed to be met in order for the bonus to be payable As such, the bonus granted was included in full in the year giving rise to its payment with the amounts included in subsequent years being the additional amount awarded in respect of subsequent With Profit Fund performance
(d) Long-term incentives	A Long Term Incentive Plan (LTIP) was introduced in 2011 with the first payment to be made early in 2014 based on performance over the period 2011 to 2013 inclusive The amount payable was 19 5% of salary in 2011 (11 6% in respect of achievement of the Annual Business Plan and 7 9% in respect of investment performance of the Society's Long Term Policyholder Fund)
(e) Pension	For defined benefit scheme members the amount included in respect of pension benefits is calculated as (i) the value of increase in pension entitlement over the year in excess of inflation, plus (ii) the cash allowance payable in lieu of pension accrual in excess of the annual allowance, less (iii) the employee's contributions For defined contribution scheme members the amount included in respect of pension benefits is the Society's contribution to the scheme during the year
(f) Other	A commitment was previously made to Craig Errington to offset the personal tax payable on lump sum benefits in excess of the Lifetime Allowance A one-off payment of £300,000 was made to Craig Errington in 2013 in return for giving up this entitlement in respect of past and future service This payment is not included in the ongoing remuneration figure as it is a one-off payment that is unique in nature and relates to a benefit that has accrued/would have continued to accrue over a number of years and so it is inappropriate to include it in full for a single year

* Craig Errington and Samantha Porter are, based on the date that they joined the Society provided with a defined pension benefit based largely on their final salary These amounts reflect the value of the increase in pension entitlement arising from salary increases that have been awarded after consideration of the factors set out below

Individual Elements of Remuneration

Base Salary and Fees

The Society has grown significantly over recent years and completed the acquisition of Practice Plan Limited during 2013 In order to provide an appropriate organisational structure under which further growth can be undertaken in a controlled manner a new Group organisational structure was introduced with effect from 1 November 2013 under which four new Group Director positions were created with increased levels of responsibility As part of determining appropriate salary ranges for these new roles RemCo considered benchmarking data provided by Deloitte LLP which showed current salaries to be below those provided by other organisations of similar size and complexity for comparable roles In addition, salaries have been increased where appropriate to reflect the increasing level of experience of recently appointed Executive Directors and their contribution to the overall success of the Society

2013 Annual Bonus

In 2013 the Society achieved an operating profit of 98% of its budgeted level giving rise to an overall bonus of 12 1% of salary for Executive Directors with individual bonuses ranging from 9 6% of salary to 14 1% of salary depending on RemCo's evaluation of individual performance

Summary of 2014 bonus operation

The annual bonus for 2014 will operate in the same manner as for 2013 with actual operating profit being compared to the level of budgeted operating profit approved by the Board in November 2013

Value earned from long-term incentive awards

The following table sets out the amounts accrued in respect of the Long Term Incentive Plan

For each year the table shows the original amount of the award (15% of salary at the start of that year or on becoming eligible for the plan if later) and the current amount of the award allowing for actual performance to date and on plan performance for the remainder of the performance period

ANNUAL REPORT ON REMUNERATION
CONTINUED

The 2011 award was paid in March 2014

	2013 (£'000)		2012 (£'000)		2011 (£ 000)		Total (£ 000)	
Performance period	2013 - 2015		2012 - 2014		2011 - 2013		N/A	
Value of award	Current	Original	Current	Original	Current	Original	Current	Original
Craig Errington	**74**	**62**	77	59	69	52	220	173
Clive Bridge	**40**	**34**	40	30	35	27	115	91
Steve Deutsch (until 31 October 2013)	**35**	**29**	46	35	40	31	121	95
Rob Green (appointed 20 February 2012)	**40**	**34**	33	25	-	-	73	59
Samantha Porter	**32**	**27**	29	22	25	19	86	68

Long-term incentive awards for 2014

The Long Term Incentive Plan for 2014 will operate in the same manner as for 2013

Total pension entitlements

The values below represent the combined Wesleyan Staff Pension Scheme and Society accrued defined benefit pension entitlement for each Director Members of the Scheme have the option to pay additional voluntary contributions to secure additional pension benefits on a defined contribution basis These are not included in the table below

Director	Accrued Pension p a at 31 December 2013 (£'000)
Craig Errington	**140**
Clive Bridge	**16**
Steve Deutsch (until 31 October 2013)	**29**
Samantha Porter	**58**

Notes

[1] The accrued pension is based on service to the year end and pensionable salary at that date, or where the Director has left the Scheme determined at the Director's date of leaving the Scheme

[2] The normal retirement date under the Scheme is age 65 Under the Scheme rules, benefits earned up to 1 October 2005 are payable in full from age 60 with the remaining benefits payable in full from age 65 If pension benefits are taken at an age other than when they are payable in full then they are actuarially reduced/enhanced to reflect early/late payment respectively on the same basis as for other Scheme members

[3] Rob Green is a member of the Wesleyan Staff Group Personal Pension Scheme a defined contribution pension scheme, and so is not included in the table above

Payments to past Directors

No payments have been made to past Directors in 2013 other than retirement benefits payable to previous Executive Directors

Payments for loss of office

No payments have been made to Directors leaving their office in 2013

Performance graph and table

The chart shows operating profit as a % of budget for the last three years This is used in the assessment of annual bonus and the financial performance element of LTIP

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Table of historic CEO data

Year	CEO salary (£'000)	CEO single figure of remuneration (£'000)	Annual bonus payout against maximum opportunity (%)	LTIP vesting rates against maximum opportunity (%)
2013	**412**	**1,078***	**72**	**65**
2012	392	696	36	N/A
2011	351	852	91	N/A
2010	292	538	93	N/A
2009	278	397	100	N/A

* Includes one-off payment of £300 000 made to Craig Errington in 2013

Relative importance of spend on pay

Pay is a significant element of Society expenditure, representing over 52% (2012 52%) of operating expenses for the Group

	2012 (£m)	2013 (£m)	Change (%)
Operating expenses	122 5	**139 0**	13 5
Overall expenditure on pay	63 9	**72 1**	12 8

Remuneration Committee members and advisers

The remuneration of the Chairman, the Non-Executive Directors, the Executive Directors and the other members of the Executive is determined by the Remuneration Committee The members of the Remuneration Committee are all independent Non-Executive Directors of the Society During the year the Committee members were Chris Brinsmead (Chairman), Bryan Jackson (Society Chairman) and Phillip Green

The Committee is supported by the Group Corporate Services Director (who has Board level responsibility for HR matters) and the Chief Executive The Society's Chief Risk Officer provides input on the Executive Remuneration Framework design and application The Risk Committee assesses Executive behaviours and Society performance, considers whether any inappropriate risks have been taken and makes recommendations to the Remuneration Committee accordingly No individual takes part in the discussion on their own remuneration

In performing its duties, the Remuneration Committee draws on the advice of independent external consultants During the year, the Committee received advice on market levels of pay and bonus, best practice and new disclosure requirements from Deloitte LLP and on pension matters for Executive Directors from Aon Hewitt Limited Advisors were appointed by the Group Services Director following the Society's standard procurement processes and subject to the agreement of the Remuneration Committee Deloitte also provided internal audit co-sourcing services to the Society during the year Aon Hewitt also provided wider pensions-related advice to the Society during the year and a separate team from Aon Hewitt acted as actuarial advisers to the trustees of the Wesleyan Staff Pension Scheme

The total cost of advice to the Remuneration Committee on Directors' remuneration matters during the year was £22,000 for Deloitte and £27,000 for Aon Hewitt

Statement of voting at 2013 Annual General Meeting

The following table sets out the number of votes cast, number of votes for, against and abstention for the advisory vote on the Directors Remuneration Report at the Society's AGM held in May 2013

Resolution Text	Votes for	% For	Votes against	% Against	Total votes cast	Abstentions
To receive the Directors' Remuneration Report – advisory vote only	4,793	95 3	236	4 7	5,029	70

Chris Brinsmead
Chairman of the Remuneration Committee

27 March 2014

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 prepared the Society and Group financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and the Group and of the results of the Group for that period

In preparing these financial statements, the Directors are required to

- Select suitable accounting policies and apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained in the financial statements,
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society and the Group will continue in business, and
- Ensure and maintain the integrity of the website

The Directors confirm that they have complied with the above requirements in preparing the financial statements

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

The Directors are responsible for the maintenance and integrity of the Society's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the performance, business model and strategy of the Society and the Group

Statement of disclosure of information to auditors
As far as the Directors are aware, there is no relevant audit information of which the Society's auditors are unaware The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information

BY ORDER OF THE BOARD

D P. Bgw D.P.Bgw

Company Secretary
27 March 2014

DIRECTORS' REPORT

The Directors present their annual report and audited consolidated financial statements for the year ended 31 December 2013

Status
The Society is a mutual society incorporated in England (Registered Number ZC000145) by Private Act of Parliament, with the Registered Office at Colmore Circus, Birmingham B4 6AR It has no shareholders and its members, who have the right to vote at general meetings, are defined in Note 25 to these accounts

Principal activities
The principal activities of the Group during 2013 continued to be the transaction of long-term insurance business in the UK, namely life assurance, pensions and income protection insurance in the form of reviewable, with profits and unit-linked contracts and acting as a financial adviser Other financial services undertaken included mortgage broking, retail banking, unsecured retail and commercial lending, unit trust management, acting as a general insurance broker and providing dental patient membership plans

Review of business and future developments
The Society's business is reviewed by the Chairman on pages 2 and 3 and the Strategic Report on pages 4 to 13 The year-end financial position is considered satisfactory given the ongoing underlying volatility of markets and the general outlook As set out in those statements, the Society is projecting further growth in 2014 and beyond, based on expansion and ongoing improvements in its current method of operation

The Key Performance Indicators, on which the Board and Management principally focus, are discussed in the Strategic Report and summarised in the Financial Summary on page 4 These include the Society's operating profit, new business, investment returns and with profits payouts In addition, management closely monitor the financial strength of the business as mentioned in the section on management of risk

Results and bonus declaration
The financial statements and accompanying notes on pages 43 to 87 show the results for the year ended 31 December 2013 and the financial position at that date The financial results are presented in accordance with the Companies Act 2006 In accordance with the Society's Rules and Insurance Company legislation, the Society's Chief Actuary carried out a valuation of the Society's assets and liabilities as at 31 December 2013 The Directors, having taken advice from the Chief Actuary following his annual investigation of the long-term fund, have declared rates of bonuses which are shown on page 37

Risk management
Details of the key risks to the Society and its approach to risk management are set out on pages 11 to 13 and in Note 2 to these financial statements

Details on the adequacy of the Society's financial strength is covered in Note 13

Directors
The Directors of the Society are as set out on pages 14 and 15 Steve Deutsch stood down from the Board on 31 October 2013 Liz McKenzie joined the Board on 13 January 2014 Liz will be subject to re-appointment at the AGM on 1 May 2014

All Directors will be standing for re-election at the Society's AGM on 1 May 2014 None of the Directors have an interest in the shares of the Society's subsidiaries

Social responsibility
As a mutual, the Society's principal focus is on its members and policyholders However, the importance of having responsible policies for staff, customers and the community is recognised and the potential impact of key social responsibility issues is considered within the overall risk management framework

Employee involvement
During the year, the policy of providing employees with information about the Society has been continued through employee briefings and an employee opinion survey in which employees have also been encouraged to present their suggestions and views on the Society's performance Regular meetings are held between management and employees to allow a free flow of information and ideas

Equal opportunities
The Society is fully committed to equal opportunities in its human resources practices, regardless of age, sex, ethnic origin or disability It is the Society's policy to give full consideration to suitable applications for employment by people with disabilities Opportunities also exist for employees of the Society who become disabled to continue in their employment or to be trained for other positions in the Society's employment

DIRECTORS' REPORT
CONTINUED

Charitable donations
Charitable donations amounted to £75,208 (2012 £61,186) The Society's main charitable recipient was Birmingham Children's Hospital A number of charitable events were supported by employees where their personal contribution was matched £1 for £1 by the Society through the Wesleyan Charitable Committee

Charitable recipients	Donations (£)
Birmingham Children's Hospital	52,853
Marie Curie Cancer Care	2,500
Children in Need	3,506
Other charities	16,349
Total	**75,208***

* The total amount raised for Birmingham Children's Hospital which includes staff funding is £90,522

Supplier payment policy
It is the Society's policy to agree the terms of payment on commencement of business with all suppliers and to abide by these terms The proportion of trade creditors included in the Balance Sheet to total invoices in the year represents 23 days' supplies (2012 16 days' supplies)

Independent auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Society will be proposed at the AGM

BY ORDER OF THE BOARD

D. P. Bgw D.P.Bgw

Company Secretary

27 March 2014

VALUATIONS AND BONUS DECLARATIONS

The Directors, having taken advice from the Chief Actuary following his annual investigation of the long-term fund, have declared bonuses for the year ended 31 December 2013 which in value total £65 7m (2012 £56 3m)

Ordinary life assurance business	
Standard with profits policies	1 75% of basic sum assured (2012 1 50%) and 2 50% of existing bonuses (2012 2 00%)
Unitised with profits policies (Gross of management charge)	3 00% of existing bonuses (2012 2 50%)
Pension business	
Conventional with profits policies (including paid-up policies)	0 30% of capital amount (2012 0 30%) and 0 50% of existing bonuses (2012 0 50%)
Unitised with profit policies (Series 1) (Gross of management charge)	4 25% of value of units (2012 3 75%)
Unitised with profit policies (other Series) (Gross of management charge)	3 50% of value of units (2012 3 00%)
Industrial life assurance business	1 00% of basic sum assured (2012 1 00%)
With Profits ISA (Gross of management charge)	3 50% of value of units (2012 3 25%)

Examples of amounts payable on maturity on 1 July 2014 and 1 July 2013 are as follows

	Age	Term	per month Premium	2014	2013
Ordinary life assurance business	30	15 years	£50	**£13,309**	£12,398
	30	25 years	£50	**£45,601**	£45,845
Pensions business	50	15 years	£200	**£63,935**	£55,242
	45	20 years	£200	**£103,496**	£94,343
Industrial life assurance business	45	20 years	£12 4 weekly	**£4,754**	£4,844

In addition the following rates of bonus are declared for life and pensions business in the Medical Sickness Society Fund

Ordinary life assurance business	1 50% of basic sum assured (2012 0 75%) and 4 00% of existing bonuses (2012 3 00%)
Pensions business	
Pure endowments	1 25% of the cash sum secured and the existing bonuses (2012 0 75%)

This is an extract of the full declaration

REPORT FROM THE SOCIETY'S AUDIT COMMITTEE

Under my Chairmanship, the Audit Committee has played a key role in assisting the Board with regard to financial reporting and to ensuring that the internal controls within the Society are appropriately robust The Committee applies a very rigorous approach in reviewing and challenging the reports it receives from management, Internal Audit and the external auditors, PricewaterhouseCoopers LLP (PwC)

The Committee invites to its meetings members of the Executive and their direct reports so they can answer questions and provide first-hand explanations of the controls they have in place to mitigate the Society's risks and to provide direct responses to any matters raised by Internal Audit in their reports to the Committee The Committee has held private meetings with the Head of Internal Audit at least once a year for some time The Head of Corporate Audit, the Group Finance Director and the Chief Actuary have direct access to me and the Committee met with each of them on a private basis during the year

The Committee also has a key role in the relationship with the external auditors, PwC They attend most of the Committee's meetings, particularly when financial reporting is being considered The external auditors have direct access to me and the Committee meets at least once a year solely with the external auditors

Keith Nicholson
Chairman of the Audit Committee

27 March 2014

The Audit Committee has met seven times during 2013 to

(i) provide assistance to the Board in fulfilling its responsibilities in respect of the Annual Accounts and Regulatory Returns to the Prudential Regulation Authority including those for subsidiary companies, and

(ii) review and report to the Board on the effectiveness of the Society's system of internal control, including financial, operational and compliance controls and risk management processes

The Audit Committee considered the following significant issues in relation to the annual financial statements

- the methods and assumptions used in deriving the material components of the Society's insurance liabilities in particular
  - the expense assumptions
  - the demographic assumptions for mortality, longevity, persistency and morbidity

The Committee drew on the report from PwC and their own knowledge and experience in reviewing the methodology and the data underlying the assumptions

- the approach to the valuation of investment properties given the modest number of transactions in comparable properties

The Committee sought to understand the approach to the valuation as well as considering the PwC observations on the valuation

- whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy and how these judgements were reached

The Committee determined that the Annual Report and Accounts did meet these criteria and could be recommended to the Board for approval

During the year the Committee

- Approved the Group's internal audit plan and received reports from internal audit on the work it had undertaken
- Approved the Group's Compliance plan and received reports from the Compliance function and third parties
- Reviewed the quality of controls and the risk of fraud, including in the recognition of revenue

Keith Nicholson and Nigel Masters are considered by the Board to have recent and relevant financial experience

Following endorsement by the Board in 2011 a formal review of whether the external audit appointment is put to tender, subject to a satisfactory outcome of the annual effectiveness review and any regulatory changes, is carried out in the sixth year of the audit partner's appointment or on the prior change of the audit partner The current audit partner has served for four years

The outcome of the most recent annual effectiveness review which was completed in March 2014 was satisfactory and as a consequence a resolution for the reappointment of PwC as external auditors will be put to the AGM

PricewaterhouseCoopers LLP (or its predecessor firms) has acted as the Society's external auditor since 1988 during which time the Society's external audit appointment has not been subject to tender

The Committee has a policy on the use of external auditors for non-audit services which precludes them from being engaged for such work if their independence or objectivity as external auditors would be impaired This policy requires that such engagements where the fee is likely to exceed £25,000 need the prior approval of the Committee The Committee was satisfied that all non-audit services provided during the year complied with policy

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WESLEYAN ASSURANCE SOCIETY

Report on the Financial Statements

Our opinion
In our opinion the financial statements, defined below

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2013 and of the Group's results for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited
The Group financial statements and Society financial statements (the "financial statements"), which are prepared by Wesleyan Assurance Society, comprise

- the Group and Society Balance Sheets as at 31 December 2013,
- the Consolidated Profit and Loss Account for the year then ended, and
- the Notes to the accounts, which include a summary of significant accounting policies and other explanatory information

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland")) An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the Directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Overview of our audit approach

Materiality
We set certain thresholds for materiality These helped us to determine the nature, timing and extend of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole

In making our assessment we considered the financial measures which we believed to be relevant to determining such thresholds This included consideration of the total assets, Funds for Future Appropriations (FFA, which represents the amount of surplus yet to be allocated to the members of the Society to whom this opinion is addressed) and FFA plus total with profit liabilities We have concluded that FFA plus total with profit liabilities is the most relevant benchmark as it reflects the underlying interest of the members of the Society

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £20m

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

Overview of the scope of our audit
The Group financial statements comprises a consolidation of the core Society and the subsidiaries as listed in Note 21 to the accounts, of which only three are financially significant to the Group

In establishing the overall approach to the Group audit, we determined the extent of work that needed to be performed by us on the subsidiaries We performed a full scope audit of the complete financial information of the Society and its financially significant subsidiaries None of the other subsidiaries has transactions or balances that are material to the Group This work together with the procedures we performed at the Group level, including procedures over the consolidation, gave us the evidence we needed as a basis for our opinion on the financial statements as a whole

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WESLEYAN ASSURANCE SOCIETY
CONTINUED

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

We considered the following areas to be those that required particular focus in the current year This is not a complete list of all risks or areas of focus identified by our audit We discussed these areas of focus with the Audit Committee Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 38

Areas of focus	How the scope of our audit addressed the area of focus
Valuation of long-term business provision and value of in-force non-profit business ("PVIF") We focused on this area because it involves complex and subjective judgements by the Directors about future events, in particular mortality, morbidity and expenses (see note 13 to the financial statements), for which small changes can result in material effects on the calculation of the long-term business provision and PVIF In addition, we focused on expense assumptions given the material change in the long-term business provision as a consequence of changes in the underlying expense assumptions	We tested the key methodologies and assumptions used by the Directors in the calculation of these liabilities Our work focussed on challenging those assumptions to which the liability is most sensitive We tested the Directors' determination of these assumptions by checking back to underlying policyholder and industry data We also tested the appropriateness of the Directors' models and economic assumptions In particular we have tested the increase in maintenance expenses and short-term inflation and the impact of these on the expense assumptions within the long-term business provision and PVIF
Valuation of investment properties We focused on this area because of the subjective nature of the valuation of properties	We obtained a sample of the external valuation reports obtained by the Society for the land and buildings We assessed the appropriateness of the methods and assumptions used in these valuations
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure the Directors may feel to achieve the planned results We focused on the recognition of premium revenue and the valuation of investments which can determine the level of income from unrealised gains	We tested controls, over the reconciliations between the premium systems used by the Group, its bank accounts and its financial ledgers, including those over suspense account reconciliations, to check that revenue recorded accurately reflects the cash received and has been appropriately reported in the Group financial statements We checked the unrealised gains recorded on investments by testing the valuations of the investments We tested unusual transactions and journals affecting income lines
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this	We assessed the overall control environment including the work of the Group corporate audit function, and the Group's "whistle-blowing" procedures We tested manual journal entries We determined whether there was evidence of bias by the Directors in the significant accounting estimates and judgments relevant to the financial statements We also evaluated the rationale for any transactions outside of the normal course of business We also built some unpredictability into our testing

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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

Other Matters on Which we are Required to Report by Exception

Adequacy of accounting records and information and explanations received

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 Society, or returns adequate for our audit have not been received from branches not visited by us, or
- the Society financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made We have no exceptions to report arising from this responsibility

Corporate Governance Statement

On page 34 of the Annual Report, as required by the UK Corporate Governance Code – An Annotated version for Mutual Insurers (the "Code") Provision C 1 1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy On page 38, as required by C3 8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed Under ISAs (UK & Ireland) we are required to report to you if, in our opinion

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit, or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We have no exceptions to report arising from this responsibility

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Society acquired in the course of performing our audit, or
- is otherwise misleading

We have no exceptions to report arising from this responsibility

Matter on Which we have Agreed to Report by Exception

Corporate Governance Statement

The Society has chosen voluntarily to comply with the UK Corporate Governance Code – An Annotated Version for Mutual Insurers (the "Code") The Directors have requested that we review the parts of the Corporate Governance Statement relating to the Society's compliance with the eight provisions of the Annotated UK Corporate Governance Code specified for auditor review by the Association of Financial Mutuals We have nothing to report having performed our review

Responsibilities for the Financial Statements and the Audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities statement set out on page 34, the directors are responsible for the preparation of the Group and Society financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the Group and Society financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Gail Tucker (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors

London, 27 March 2014

FINANCIAL STATEMENTS

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 (£m)	2012 (£m)
Technical Account – Long-term Business			
Earned premiums, net of reinsurance	3(a)		
Gross premiums written		**249 8**	320 0
Outward reinsurance premiums		**(15 2)**	(16 6)
		234 6	303 4
Investment income	4	**197 8**	197 2
Unrealised gains on investments	4	**321 6**	179 2
Other technical income	5(a)	**10 6**	12 5
Total Technical Income		**764 6**	692 3
Claims incurred, net of reinsurance	6		
Claims paid – gross amount		**(272 7)**	(287 5)
– reinsurers' share		**27 6**	28 7
– net of reinsurance		**(245 1)**	(258 8)
Change in the provision for claims		**(0 3)**	1 3
		(245 4)	(257 5)
Change in other technical provisions, net of reinsurance	14		
Long-term business provision – gross amount		**(246 6)**	(275 3)
– reinsurers' share		**(8 3)**	(12 9)
		(254 9)	(288 2)
Net operating expenses	7	**(67 1)**	(75 1)
Investment expenses and charges	4	**(4 3)**	(4 4)
Allocation of net investment return to investment contracts	14	**(166 2)**	(58 8)
Other technical charges	5(b)	**(10 4)**	(0 7)
Tax attributable to the long-term business	9	**(19 9)**	(10 6)
Change in present value of future profits on non-profit business written in the With Profits Fund	13	**13 6**	65 5
Actuarial (loss)/gain on pension scheme	24	**(37 7)**	5 5
Transfers from/(to) the Fund for Future Appropriations	13	**27 7**	(68 0)
		(264 3)	(146 6)
Total Technical Charges		**(764 6)**	(692 3)
Balance on the Technical Account – Long-term Business		**-**	-

The whole of the above results derive from continuing operations

All recognised gains and losses are dealt with in the profit and loss account and therefore no separate statement of total recognised gains and losses has been provided

BALANCE SHEETS
AS AT 31 DECEMBER 2013

	Note	Group 2013 (£m)	Group 2012 (£m)	Society 2013 (£m)	Society 2012 (£m)
Assets					
Intangible assets					
Goodwill	10(d)	**36 4**	2 1	–	–
Investments					
Land and buildings	10(a)	**205 1**	205 5	**205 1**	205 5
Group undertakings and participating interests	21	–	–	**61 7**	41 6
Other financial investments	10(a)	**3,805 6**	3,585 7	**3,635 5**	3,409 5
		4,010 7	3,791 2	**3,902 3**	3,656 6
Value of in-force non-profit business	13	**264 1**	250 5	**264 1**	250 5
Assets held to cover linked liabilities	10(b)	**1,071 6**	917 7	**1,071 6**	917 7
Reinsurers' share of technical provisions					
Long-term business provision	14	**104 9**	113 2	**104 9**	113 2
Claims outstanding		**0 4**	1 1	**0 4**	1 1
		105 3	114 3	**105 3**	114 3
Debtors					
Debtors arising out of direct insurance operations – policyholders		**5 2**	3 1	**5 2**	3 1
Debtors arising out of reinsurance operations		**4 8**	4 6	**4 8**	4 6
Other debtors	11	**7 3**	2 1	**2 6**	1 2
		17 3	9 8	**12 6**	8 9
Other assets					
Tangible assets	12	**25 8**	21 1	**25 3**	21 1
Cash at bank and in hand		**36 2**	29 3	**5 3**	5 4
		62 0	50 4	**30 6**	26 5
Prepayments and accrued income					
Accrued interest and rent		**23 8**	23 8	**23 8**	23 8
Other prepayments and accrued income		**3 6**	3 8	–	–
		27 4	27 6	**23 8**	23 8
Total Assets (excluding pension asset)		**5,594 8**	5,163 6	**5,410 3**	4,998 3
Pension Asset	24	**25 3**	53 4	**25 3**	53 4
Total Assets (including pension asset)		**5,620 1**	5,217 0	**5,435 6**	5,051 7

The notes on pages 46 to 87 form an integral part of these financial statements

	Note	Group 2013 (£m)	Group 2012 (£m)	Society 2013 (£m)	Society 2012 (£m)
Liabilities					
Non-current liabilities					
Fund for Future Appropriations	13	**625 5**	653 2	**625.5**	653 2
Technical Provisions					
Long-term business provision	14	**3,563 4**	3,316 8	**3,563 4**	3,316 8
Claims outstanding		**11 8**	11 5	**11 8**	11 5
		3,575 2	3,328 3	**3,575 2**	3,328 3
Technical provisions for linked liabilities	14	**1,071 6**	917 7	**1,071 6**	917 7
Provisions for other Risks and Charges	15	**71 9**	50 9	**68 3**	47 0
Derivative Financial Instrument	2 & 10(c)	**4 3**	2 1	**4 3**	2 1
Deposits received from Reinsurers	16	**66 5**	73 9	**66 5**	73 9
Current liabilities					
Creditors					
Creditors arising out of direct insurance operations		**0 9**	1 0	**0 9**	1 0
Creditors arising out of reinsurance operations		**0 5**	0 5	**0 5**	0 5
Other creditors including taxation and social security	17	**21 8**	24 5	**17 3**	22 3
Customer bank accounts	2	**161 9**	148 6	**-**	–
		185 1	174 6	**18 7**	23 8
Accruals and Deferred Income		**20 0**	16 3	**5 5**	5 7
Total Liabilities		**5,620 1**	5,217 0	**5,435 6**	5,051 7

The notes on pages 46 to 87 form an integral part of these financial statements

The financial statements on page 43 to 87 were approved by the Board of Directors on 27 March 2014 and signed on its behalf by

Bryan Jackson
Chairman

Craig Errington
Chief Executive

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Accounting Policies

Basis of presentation and consolidation

The Group financial statements have been prepared under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") in December 2005 and as amended in December 2006

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom which have been applied consistently throughout the year

A summary of the more important Group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year Compliance with the Statement of Standard Accounting Practice (SSAP) 19 "Accounting for Investment Properties" requires departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of the departure is given in the accounting policy note relating to investments

The consolidated financial statements incorporate the assets, liabilities and results of the Society and its subsidiary undertakings drawn up to 31 December each year The results of subsidiary undertakings acquired or sold during the year are included in the consolidated results from the date of acquisition or up to the date of disposal On acquisition of a subsidiary undertaking, all of its assets and liabilities at the date of acquisition are recorded at their fair values reflecting their condition at that date

The Group is exempt from the requirement to prepare a cash flow statement as a mutual life assurance company under Financial Reporting Standard (FRS1)

The Directors have considered the appropriateness of the going concern basis used in the preparation of these financial statements and, in the opinion of the Directors, the going concern basis adopted continues to be appropriate

Classification of contracts

The Society classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features Insurance contracts are those contracts that transfer significant insurance risk Such contracts may also transfer financial risk Contracts that do not transfer significant insurance risk are investment contracts As a general guideline, the Society defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits Such contracts are more commonly known as "with profits" or "participating" contracts and are accounted for as insurance contracts

Hybrid contracts are those where the policyholder can invest in and switch between both unit-linked (non-participating) and unitised with profits (participating) investment mediums at the same time For practical reasons certain hybrid contract types are treated as if they were investment contracts with discretionary participation features when accounting for premiums, claims and other revenue

Hybrid policies that include both discretionary participation features and unit-linked components have been unbundled and the two components have been accounted for separately

Amounts received in respect of unit-linked investment contracts, which principally involve the transfer of financial risk, are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet, as an adjustment to the liability to the policyholder Financial liabilities in respect of unit-linked investment contracts are carried in the balance sheet as 'Technical provisions for linked liabilities'

(i) Insurance contracts and investment contracts with discretionary participating features (DPF)

Premiums

Long-term business premium income is accounted for when due for payment or, in the case of linked business, when the liability is established

Reinsurance

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks mortality, morbidity, investment, persistency and expenses and are accounted for as insurance contracts

(i) Insurance contracts and investment contracts with discretionary participating features (DPF) continued
The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as "Outward reinsurance premiums" when due

Claims
Death claims are accounted for on the basis of notifications received Disability claims are accounted for on the basis of individual claim assessments Maturities and annuity payments are accounted for when due Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long-term business provision and/or the liabilities on investment contracts Claims include bonuses payable on with profits or participating contracts Claims payable include all related internal and external claims handling costs Reinsurance recoveries are accounted for in the same period as the related claim

Liabilities
In respect of the hybrid policies the insurance risks have been unbundled from the investment contracts and reserves continue to be provided within the long-term business provision

(ii) Investment contracts
As noted above, amounts received in respect of unit-linked investment contracts, are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet, as an adjustment to the liability to the policyholder Financial liabilities in respect of unit-linked investment contracts are carried in the balance sheet as "Technical provisions for linked liabilities"

Fees receivable from investment contracts (included in "Other technical income") are recognised in the profit and loss account as the service is provided

Investments

(i) Land and buildings
A proportion of properties in the portfolio including those occupied by the Society are valued by external professionally qualified valuers

The remaining properties are valued by a professionally qualified valuer, who is an employee of Wesleyan Administration Services Limited and a Fellow of the Royal Institution of Chartered Surveyors

The basis of valuation used is open market value net of cost of purchase

The Companies Act 2006 requires that land and buildings be depreciated over their expected useful economic lives However, in accordance with SSAP 19, no depreciation is provided on investment properties and the Directors consider that this accounting policy is necessary for the accounts to give a true and fair view Depreciation is only one of the factors reflected in the valuations, and the amount that might otherwise have been shown cannot reasonably be separately identified or quantified

(ii) Investments in Group undertakings
In the Society's balance sheet, "Investments in Group undertakings" are stated at current value, based on the net asset value with the addition of unamortised goodwill, of each individual subsidiary company

(iii) Other financial investments
The Society classifies its other financial investments into the following categories

- Shares and other variable-yield securities and units in unit trusts – at fair value through profit and loss,
- Debt securities and other fixed-income securities – at fair value through profit and loss,
- Deposits with credit institutions – at fair value through profit or loss, and
- Loans to customers – loans and receivables

Shares and other variable-yield securities and units in unit trusts, debt securities and other fixed interest securities and deposits with credit institutions – are classified at fair value through profit or loss at inception because they form part of an investment portfolio that is managed and whose performance is evaluated by the Society's key management personnel on a fair value basis

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

1. Accounting Policies continued

The fair values of listed investments are based on the current bid price on the balance sheet date or the last trading day before the date The fair values of other unlisted investments, for which no active market exists, are established by the Directors using valuation techniques These include use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other pricing models

Net gains or losses arising from changes in the fair value of financial assets are presented in the profit and loss account within "Unrealised gains on investments" or "Unrealised losses on investments" in the period in which they arise

Unrealised gains and losses represent the difference between the fair value of financial assets at the balance sheet date and the original cost, or if they have been previously valued, that valuation at the balance sheet date The movement in unrealised gains and losses recognised through profit and loss in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period

Loans and receivables – are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Society has designated as at fair value through profit and loss Loans to customers, debtors arising out of direct insurance and reinsurance operations and other debtors are classified in this category Loans and receivables are measured at fair value plus directly attributable transaction costs on initial recognition and subsequently at amortised cost using the effective interest method

(iv) Investment income and expenses
Dividends are recorded on the date on which the shares are quoted ex-dividend Other investment income and expenses are included on an accruals basis

(v) Investment gains and losses
Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost/carrying value

Derivative financial instruments
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value Changes in the fair value are recognised immediately in the profit and loss account Fair values are obtained from quoted market prices in active markets, including recent market transactions and using valuation techniques, including discounted cash flow models and options pricing models, as appropriate All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i e the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i e without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets

Assets held to cover linked liabilities
Assets held to cover linked liabilities reflect the terms of the related policies and are valued at fair value on a bid basis consistent with the related liabilities

Impairment charge for credit losses
At each reporting date financial assets measured at amortised cost are reviewed for objective evidence that they are impaired To the extent that the carrying value of an individual loan or receivable is considered to be uncollectable it is written down to its recoverable amount, measured as the present value of the expected future cash flows discounted at the original effective interest rate of the loan or receivable

Specific impairment provisions are made against advances by Wesleyan Bank Limited ("the Bank") for which recovery is considered to be doubtful The amount of the impairment provision raised is assessed on a case by case basis

To cover impaired advances which have not yet been identified on an individual basis a collective impairment provision is made against the unsecured loan portfolio In accordance with best practice, the collective impairment provision has been monitored against historic collection rates

Impairment charges for credit losses are deducted from loans and advances in the balance sheet and are charged to the profit and loss account The impairment provisions made against advances by the Bank during the year impact on the Society's results through the movement in the net asset value of the Bank as a wholly-owned subsidiary

Pension costs
The Group operates a defined benefit pension scheme, which was closed to new members with effect from 1 October 2009 The pension asset recognised in the balance sheet is the 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 assets Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increased benefits vest

Net expected return on the pension assets comprises the expected return on the pension scheme assets less interest on scheme liabilities

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 being directly attributable to policyholders are taken to the technical account They are included as a separate line in the technical account for long-term insurance business immediately above the line for transfer to or from the Fund for Future Appropriations

The pension asset disclosed in the financial statements is limited to the amount that may be recovered through reduced contributions over a reasonable period, estimated to be six years at 31 December 2013

Present value of future profits on non-profit business written in the With Profits Fund
The excess value of future profits from non-profit business written by the Society over any value taken into account in calculating the realistic liabilities for with profits business is recognised as an asset, and allows for the repayment of initial expenses incurred on this business that have not yet been recouped

The value assigned to this asset is calculated in accordance with the PRA's "realistic" liability regime The methodology and assumptions involve reasonable adjustments to reflect risk and uncertainty, and are based on current estimates of future experience and current market yields

Reinsurers' share of technical provisions
The reinsurers' share of technical provisions is calculated on a basis consistent with the calculation of the corresponding liabilities Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks mortality, morbidity, investment, persistency and expenses The contracts are accounted for as insurance contracts, provided that the risk transfer is significant Some contracts which provide for the transfer of significant risk are also structured to provide financing Where, under such contracts, financing components are to be repaid in future accounting periods, the amount outstanding under the contract at the balance sheet date is classified as a liability to the reinsurer and included in 'deposits received from reinsurers' Contracts with the legal structure of reinsurance contracts which do not transfer significant insurance risk are classified as financial assets

Goodwill
Goodwill is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight-line basis over its useful economic life Goodwill is tested annually for impairment The gain or loss on subsequent disposal of a subsidiary or associated undertaking will include any attributable unamortised goodwill

Prior to 1998, purchased goodwill was eliminated against reserves as a matter of accounting policy As permitted under the transitional arrangements of FRS 10, such amounts previously written off to reserves have not been reinstated as an asset, but will be charged to the profit and loss account on any disposal of the business to which they relate

Tangible fixed assets
The cost of tangible assets is their purchase cost, together with any incidental costs of acquisition Depreciation is calculated so as to write off the cost of tangible assets on a straight-line basis over the expected useful economic lives of the assets concerned, having regard to expected residual values

The periods generally applicable are

- Computer equipment and software – three to eight years
- Furniture and fittings – ten to twenty years
- Motor vehicles – three years

Where, in the opinion of the Directors, there has been impairment in the value of fixed assets to below their net book value, additional depreciation is charged to reduce the carrying value of the assets to their net realisable value

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

1. Accounting Policies continued

Fund for Future Appropriations (FFA)
The FFA is the excess of assets over the aggregate of policy and other liabilities It is the Society's capital Transfers to and from the FFA reflect the excess or deficiency of income over claims, expenses and tax and changes in the technical provisions in each accounting period A small proportion of the FFA is for the future benefit of the policyholders in the Medical Sickness Society Fund

Long-term business provision
The long-term business provision is determined by the Directors, having taken advice from the Chief Actuary following his annual investigation of long-term insurance business

(i) Insurance contracts and participating investment contracts
Insurance and participating investment contract liabilities are determined annually in accordance with regulatory requirements

For with profits (participating) contracts, provision is made for all bonus payments (declared and future, reversionary and terminal) estimated, where necessary, in a manner consistent with the Principles and Practices of Financial Management (PPFM) The liability includes an allowance for the time and intrinsic value of options and guarantees granted to policyholders and for possible future management actions

The realistic liabilities are based on the aggregate value of policy asset shares reflecting the premiums, investment return, expenses and charges applied to each policy Allowance is also made for policy-related liabilities such as guarantees, options and future bonuses, typically calculated using a stochastic model simulating future investment returns, asset mix and bonuses

In determining the realistic value of with profits liabilities the value of non-profit business written in the with profits fund is accounted for as part of the calculation

For conventional non-profit liabilities, a gross premium valuation method is used, which brings into account the full premiums receivable under contracts written by the Society, estimated renewal and maintenance costs and contractually guaranteed benefits

The estimation techniques and assumptions are periodically reviewed with any changes in estimates reflected in the profit and loss account as they occur

(ii) Options and guarantees
Some with profits policies contain options and guarantees that can increase the benefits payable to the policyholder As noted above, a market-consistent stochastic model is used to determine the potential liability for these options and guarantees The most significant options and guarantees are

- The sum assured and declared reversionary bonuses on with profits policies,
- With profits deferred annuity policies where the annuity is at a guaranteed rate,
- With profits policies with minimum surrender values, and
- Unitised with profits policies containing guarantees that market value adjustments will not be applied at specified times

Technical provisions for linked liabilities
The financial liabilities for these contracts are designated at inception at fair value through profit or loss The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Society's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date

If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable

Deferred taxation
Deferred tax assets and liabilities are recognised on an undiscounted basis (2012 Discounted basis – see Note 15) in accordance with the provisions of FRS 19 "Deferred Tax"

Deferred tax on changes in the fair value of investments is recognised in the profit and loss account Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax relating to unrealised gains on linked assets is included in the technical provisions for linked liabilities

Provisions
A provision is recognised in the balance sheet when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability No provision is established where a reliable estimate of the obligation cannot be made

Leases
Finance leasing agreements transfer to the Group substantially all the benefits and risks of ownership of an asset Accordingly they are treated as if the asset had been purchased outright Payments in respect of operating leases are charged to the profit and loss account in the period to which they relate Appropriate provisions are held when operating leases are considered to be onerous contracts (as defined under FRS 12 "Provisions, contingent liabilities and contingent assets")

Foreign currencies
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates Pounds sterling is the functional currency of all Group entities The consolidated financial statements are presented in millions of pounds sterling, which is the Group's presentation currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the period

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss

Segmental reporting
In the opinion of the Directors, the Group operates in one business segment

2. Risk Management

General
The Society has adopted a "three lines of defence" approach to risk management structured as follows -

- Primary responsibility for the identification and day-to-day management of risks lies with business management (the first line of defence)
- Risk oversight, including the review and challenge of the assessment and management of risk by business management and the monitoring of control effectiveness, is undertaken by the Risk function reporting to the Group Performance Review Committee and the Risk Committee (the second line of defence)
- Corporate Audit provide independent assurance on the design and effectiveness of the overall system of internal control, including risk management and compliance, reporting to the Audit Committee (the third line of defence)

A clear risk management framework and methodology has been established which includes

- The definition of the Society's appetite for the key risk types that it is exposed to
- The production of management information which reports the Society's position relative to its risk appetite based on key risk indicators on a monthly basis
- A review of the significant internal and external risks that may impact the Society and its target markets as part of the Society's strategic planning process
- A process whereby significant new emerging risks are considered and reviewed by the Risk function on a regular basis Findings are reported on an annual basis to the Group Performance Review Committee, although risks are escalated as appropriate
- A risk identification, categorisation and assessment methodology for operational risks
- Risk identification and management procedures for major projects
- The detailed review of and reporting on certain material risks, including those that have an impact on the financial position of the Society
- The Individual Capital Assessment which considers the market, credit, insurance and operational risks facing the Society together at a point in time and determines the amount of capital that it is appropriate to hold taking account of these risks based on a prescribed risk appetite measure (its risk based capital)
- A Capital Plan focusing on the quantification of market, credit and insurance risk with the application of detailed modelling to assess the sensitivity of the Society's position to economic and business scenarios over a ten-year period

The Risk Committee is tasked by the Board with providing independent oversight of the risk management framework

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

2. Risk Management continued

The employment contract of each member of the Executive includes a clause placing a duty on the individual to identify, assess and report to the Board in a timely manner on all significant risks in their area of responsibility, whether strategic or operational, and when appropriate to implement a risk mitigation plan to resolve any weakness

Risk appetite

The Society's risk appetite is the amount of risk that the Society is prepared to accept in pursuit of its business objectives Any new or materially revised exposure is considered before being accepted in the light of this risk appetite

The Society's risk appetite is set by the Board and reviewed at least annually The following statement summarises the Society's risk appetite

"We accept risk in order to deliver our strategic objectives, recognising the need to balance risk and reward and to ensure that risk is actively managed and monitored Our reputation and relationship with our customers is vital and we will always treat our customers fairly and act with integrity In order to meet the needs of our current and future policyholders, we will ensure that we remain financially strong and even in extreme circumstances, able to meet our financial obligations as they fall due "

The Society's adherence to its risk appetite is assessed through both quantitative and qualitative measures Whilst there are several component parts within the Risk Appetite Framework, the Society places particular focus on the frameworks for Liquidity, Conduct, Capital and Reputation Risks

Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due The Society's liquidity risk in normal circumstances is limited The level of liquidity is monitored from day-to-day with available funds held at levels considered appropriate to meet anticipated liabilities and unexpected levels of demand

The contractual terms of the Society's unit-linked and with profits investment contracts provide that the policyholders could request repayment of the contracts on demand at any time In practice, the Directors consider that the contractual terms do not fairly represent the liquidity risk to the business because it is extremely unlikely that all policyholders would choose to surrender their policies at the same time and the Society has invested significantly in liquid assets

The liquidity risk for Wesleyan Bank Limited ("the Bank"), arising from the customer bank accounts which is monitored on a monthly basis, is set out below

	2013 (£m)	2012 (£m)
Repayable on demand	**48 5**	39 9
3 months or less but not on demand	**31 6**	35 5
1 year or less but over 3 months	**24 4**	32 3
5 years or less but over 1 year	**57 4**	40 9
	161 9	148 6

For the purposes of overall liquidity adequacy, it is the Bank's policy to maintain a liquidity buffer comprising of a stock of high quality, unencumbered liquid assets The liquidity buffer to be held is at least at the minimum requirement for a Simplified Individual Liquidity Adequacy Standards (ILAS) firm as advised by the PRA In normal market conditions, the stock will be maintained with a cushion over the regulatory level as defined by the Bank's Board Liquidity is monitored by means of a cash position report in accordance with the PRA's reporting requirements and reviewed on a daily basis

Details of the derivative financial instruments held by the Society are disclosed on page 66 The equity collar has a contractual maturity date of 20 March 2020 and the interest rate collar has a contractual maturity date of 3 October 2016 All other financial liabilities are repayable on demand

In excess of £4 6bn (2012 £4 5bn) of the Group's assets are either highly liquid or readily realisable and therefore available to support the Group's liabilities at limited notice

Financial instruments – fair value

FRS 29 "Financial Instruments Disclosure" (Amended) requires enhanced disclosures about fair value measurement and liquidity risk

FRS 29 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Group's market assumptions These two types of inputs have created the following fair value hierarchy

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities This level includes listed equity securities and debt instruments on exchanges (e g London Stock Exchange, Frankfurt Stock Exchange and New York Stock Exchange) and exchange traded derivatives such as futures and options
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices) This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt The sources of input parameters such as LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) This level includes equity investments and debt instruments with significant unobservable components

This hierarchy requires the use of observable market data when available The Group considers relevant and observable market prices in its valuations where possible

Financial assets at fair value through profit and loss

	At 31 December 2013				At 31 December 2012			
	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)
Financial Assets designated at fair value								
Shares and other variable yield securities	**2,071 0**	–	–	**2,071 0**	1,787 9	–	–	1,787 9
Debt and other fixed income securities	**1,272 3**	–	–	**1,272 3**	1,317 3	–	–	1,317 3
Deposits with credit institutions	–	**294 8**	–	**294 8**		302 4		302 4
Derivatives								
Swaptions	–	**46 6**	–	**46 6**	–	40 1	–	40 1
Equity Collar	–	–	–	–	–	–	–	–
Interest Rate Collar	–	–	–	–	–	0 5	–	0 5
Total Assets *	**3,343 3**	**341 4**	–	**3,684 7**	3,105 2	343 0	–	3,448 2

* Excluding unit linked assets

Financial Liabilities at fair value through profit and loss

	At 31 December 2013				At 31 December 2012			
	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)
Derivatives								
Equity Collar	–	**3 6**	–	**3 6**	–	2 0	–	2 0
Interest Rate Collar	–	**0 7**	–	**0 7**	–	0 1	–	0 1
Total Liabilities	–	**4 3**	–	**4.3**	–	2 1	–	2 1

Conduct risk

The Society will seek to ensure at all times that the firm's behaviour results in fair outcomes for customers We are proactive in our approach in identifying issues that could be of concern, including considerations for the way products are designed, sales advice, complaint handling and across all other areas of customer contact This risk is monitored through internal assessments such as advice quality, monitoring of complaints, treating customers fairly outcomes and sales force remuneration

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

2. Risk Management continued

Capital risk
The Society aims to maintain its position of financial strength and to provide the security of a strong estate The Society monitors the capital position both on a regulatory basis and on an internally determined capital requirement basis on a regular basis

Reputation risk
The Society looks to minimise the risk that an act or omission by the Society or any of its employees could result in a loss of trust from customers or other stakeholders We strive to treat our customers fairly and act with integrity Reputational risk is monitored through a variety of risk indicators to determine the view of the Society by stakeholders including the media, regulators,

Key risks
At the next level, the Society considers a range of different risks that could impact upon the deliverance of its strategic objectives Further details on how the following risks are managed are set our below

- Market risk
- Insurance risk
- Business risk
- Credit risk
- Operational risk

Market risk

(i) Overview
Market risk is the risk that the fair value of, or future cash flows from, the Society's assets and liabilities fluctuate because of changes in market prices The key components of market risk are equity price risk, interest rate risk and currency risk Investments are split into the Non-Profit Pool and the With Profits Pool, the overall strategies for which are as follows

(a) The Non-Profit Pool is established by matching specific fixed interest assets to the non-profit liabilities, and

(b) The overall investment strategy of the With Profits Pool is to maximise the investment return achieved by the assets allowing for income and capital growth and the effects of taxation This is subject to operating within the Society's risk appetite

The investment strategy may also be constrained by the need to treat policyholders fairly which includes striking the right balance between achieving good returns for policyholders and maintaining solvency Separate investment strategies are therefore maintained for the assets backing policy asset shares and for the rest of the assets in the With Profits Pool, some of which back other liabilities such as guarantees and options

The With Profits Pool includes some assets which would not normally be traded, including the Head Office building and the investments in subsidiary companies

The Chief Actuary carries out investigations to explore the financial impact of a range of market stresses and reports them annually in the Capital Plan and through the Individual Capital Assessment

The separate responsibilities of the Board, the Risk Committee and the Group Performance Review Committee are set out in the Corporate Governance Statement

(ii) Equity price risk
The Society is exposed to price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss Exposures to individual companies and to equity securities in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes

Investments held are listed and traded on the UK and other recognised Stock Exchanges (primarily in Europe and North America) The Society has a defined investment policy which sets limits on the Society's exposure to equities both in aggregate terms and by geography and counterparty This policy of diversification is used to manage the Society's price risk arising from its investments in equity securities

Sensitivity analysis for equity risk is undertaken to illustrate how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer or factors affecting all similar equity securities traded in the market Further information is provided within Note 13

(iii) Interest rate risk
Interest rate risk arises primarily from investments in fixed interest securities Both claims costs and liabilities to policyholders are exposed to interest rate risk Similarly, insurance and non-profit investment contracts have benefit payments that are fixed and guaranteed at the inception of the contract

Fair value interest rate risk is the risk that the fair value of a variable rate financial instrument will vary as market rates of interest vary For example, an increase in market rates of interest decreases the market value of a fixed interest asset

Movements in the fair value of fixed interest assets are broadly matched by equivalent movements in the related policyholder liabilities Fixed interest investments are held principally for the fixed stream of income that they provide, which is matched to the expected cash outflows arising from the guaranteed policy payments of certain of the Society's non-linked liabilities This is discussed further below

Cash flow interest rate risk is the risk that the future cash flows of a variable rate financial instrument will fluctuate because of changes in market interest rates For example, an increase in the level of market rates of interest will increase the level of income received on floating rate investments By contrast, the cash flows arising from fixed interest rate investments are unaffected by changes in market rates of interest

The Society's exposure to cash flow interest rate risk principally arises from the outflows required to meet guaranteed policy payments which are fixed and, therefore, are not affected by changes in market rates of interest One method that could be used to mitigate this risk would be to back these guaranteed cash outflows as closely as possible with fixed interest assets giving equivalent cash inflows This method is used for certain product types However, backing all policy guarantees with fixed interest assets would restrict the Society's investment choices and prevent the Society investing in other asset classes, which may be expected to provide higher investment returns over the longer term Therefore, for most product types, including all with profits contracts, the Society only seeks to partially match the guaranteed payments with fixed interest bearing assets The remaining outflow is backed by other assets, principally equities

(iv) Currency risk
Currency risk is defined as the risk that the value of an asset or liability will change as a result of a change in foreign exchange rates As the Society operates in the UK its liabilities are denominated in sterling However, for invested assets, the Society's investment management policies and procedures allow for an exposure to overseas markets, via equities, fixed interest securities and foreign currency The resulting currency risk is managed by the use of exposure limits and authorisation controls operated within the risk management framework outlined above

Of the £301 6m (2012 £231 9m) non-linked assets held in other currencies, £107 3m (2012 £68 6m) is held in US-denominated assets, £105 3m (2012 £86 4m) is held in euro-denominated assets, £56 7m (2012 £49 1m) in Far Eastern assets and £32 3m (2012 £27 8m) in assets denominated in other currencies

Insurance risk

(i) Overview
Insurance risk refers to the fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Society at the time of underwriting The exposure of the Society depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim The amount of such future obligations is assessed by reference to assumptions with regard to future mortality and/or morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates Sensitivity to the main assumptions underlying insurance risk can be seen in Note 13

The Board, having taken advice from the Chief Actuary, may set limits on business volumes, including the maximum volumes of specific products with particular risks based on its risk appetite The risks are monitored by the Risk function

(ii) Overview of insurance and investment contracts issued by the Society
The level of insurance and financial risk assumed by the Society varies with the type of business written Additional risks also arise from the financial options and guarantees within contracts The main insurance and investment contract types and an overview of the financial options and guarantees are set out below

With profits insurance and investment contracts

Key terms and conditions
With profits endowment assurance and deferred annuity contracts (including both conventional and unitised with profits policies) contain a guaranteed benefit on maturity, death or surrender at certain specified dates

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

2. Risk Management continued

This guaranteed benefit may be increased by the addition of annual bonuses and a final bonus may also be applied when the policy becomes a claim The Society can vary the amount of future bonuses paid, including reducing future bonus additions to zero, although the Society has guaranteed that the maturity value for some mortgage endowment policies will not be less than the original mortgage amount The Society also has contractual discretion to vary the amount payable on early surrender of the contract The setting of bonus rates and surrender terms are subject to the Society's PPFM All discretionary actions must be consistent with the overriding principle that customers be treated fairly

Key risk factors

- Mortality
  The guaranteed payments on death generally exceed the value of the assets held to back the policy, giving rise to mortality risk Assumptions regarding the rate of mortality are taken into account when determining the bonus payments to be added to with profits contracts The level of these bonus additions can be varied to mitigate differences between expected and actual mortality experience With profits deferred annuity contracts are also subject to longevity risk (see the section "Non-participating insurance contracts – Non-profit annuities" for an explanation of this risk)

- Guarantees
  With profits contracts are subject to the risk that the market value of assets held to back the liabilities is depressed at the time that the guaranteed payments specified in the contract fall due to be paid The Society's contractual right to vary future bonus additions can mitigate this risk This is considered further below

- Persistency and expenses
  The most significant costs associated with writing insurance contracts are Initial Advice Charges (commission prior to the commencement of RDR) and other costs incurred to acquire the policy These expenses, together with the ongoing costs of maintenance, are recovered over the policy's lifetime If the policy is terminated early, the expense deductions made to the point of termination may be less than the costs incurred For some product types, this risk is mitigated by the Society's contractual ability to vary the amount payable on surrender The Society also controls its maintenance expenses on an ongoing basis, and the Society's right to vary future bonus additions can be used to mitigate this risk

Non-participating insurance contracts – protection contracts

Key terms and conditions

These policies contain a guaranteed payment on death or disability or illness depending on the terms of the contract Protection contracts may also be attached to with profits or unit-linked policies For most policies the level of benefits payable is determined at the start of the contract and hence the ability of the Society to reduce the level of insurance risk accepted by varying terms and conditions may be limited However, many contracts include a premium review clause and for some contracts the policyholder has the option to reduce benefits in lieu of a premium increase

Key risk factors

- Mortality and morbidity
  The Society has mitigated these risks through varying the premium rates charged and through the use of reinsurance to transfer part of the mortality and morbidity risk to third-party reinsurers

- Persistency and expenses
  The Society mitigates these risks by ensuring that the premium rates charged are sufficient to meet expenses while remaining competitive for the protection provided

Non-participating insurance contracts – Non-profit annuities

Key terms and conditions

For non-profit annuities, the level of annuity payments is determined at the start of the contract and these payments continue until the death of the annuitant and in certain cases the later death of their dependants Hence the ability of the Society to reduce the level of insurance risk accepted by varying terms and conditions is limited

Key risk factors

- Longevity
  The contractual stream of payments made until the death of the annuitant gives rise to longevity risk An increase in life expectancy will increase the payments that have to be made The Society seeks to reduce cash flow interest rate risk by matching the expected cash outflows from the annuities with cash inflows from its fixed interest investments

Non-participating investment contracts – unit-linked policies

Key terms and conditions
For unit-linked investment business most of the risks (particularly market and credit risk) are borne by the policyholders The principal benefit payable is the value of the underlying assets and therefore the Society generally has limited ability to apply penalties on early surrender or early cessation of regular premiums The ability to increase charges or apply penalties may be constrained by regulatory or market pressures and by the obligation to treat customers fairly

Key risk factors
- Persistency and expenses
  Acquisition and maintenance costs are recovered by management charges deducted over the policy's lifetime If the policy is terminated early, the expense deductions made to the point of termination may be less than the costs incurred Expenses may also exceed expense deductions for continuing policies These risks are mitigated by the Society's ability to increase charges or apply penalties on early surrender The Society also controls its maintenance expenses on an ongoing basis

(iii) Financial options and guarantees within insurance contracts
Contracts issued by the Society have three principal types of financial option and guarantee

- Guaranteed lump-sum payments due on specified dates
  These mainly comprise the sum assured together with annual bonuses added onto with profits contracts, the option to surrender certain unitised with profits bonds on specified dates without a market value reduction (MVR) applying, and the guarantee that an MVR will not be applied at the planned retirement date under unitised with profits pension policies Although the Society invests in a broad spread of asset types, there is still a risk that assets held to back any individual policy may be depressed at the time that the guaranteed payment at maturity falls due to be paid The potential cost of honouring these guarantees is quantified as part of the liability for with profits contracts
- Guaranteed annuities
  These primarily arise in connection with pension business and occur in one of two forms
  - a guaranteed income specified in the contract
  - guaranteed terms for converting lump-sum maturity benefits into an income at maturity

These guarantees expose the Society to both insurance risk (longevity) and financial risk (cash flow interest rate) An increase in life expectancy will increase the liability arising under the guarantees as it extends the period over which the guaranteed rate must be paid A reduction in market interest rates (or an increase in the volatility of interest rates) also increases the liability as it results in an increase in the gap (or the risk of a gap) between the future expected cash inflows from the Society's assets and the outflows from the guarantees, which remain fixed For the closed Medical Sickness Society Fund (MSSF) the financial risk is mitigated by the portfolio of swaptions (interest rate derivatives)

- Guaranteed investment return
  Some pension policies in the MSSF provide a minimum investment return, and there is a risk that assets held to back any individual policy may be insufficient to meet this guarantee at the time that the maturity payment falls due to be paid

The costs of financial options and guarantees are measured using a market-consistent stochastic model, and the management of the risks associated with these forms part of the Group's overall Capital Management strategy as set out in Note 13

(iv) Concentrations of insurance risk
Note 14 shows the value of liabilities held by the Group and the Society and lists the key assumptions that impact on those liabilities Note 13 shows the sensitivity of the Society's capital to changes in some of these key assumptions These tables demonstrate the concentration of insurance risk accepted and the exposure of the Group and Society to the major factors underlying insurance risk

Business risk
The principal business risks that the Society faces are highlighted in the section headed Principal Risks and Uncertainties on pages 11 to 13

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

2. Risk Management continued

Credit Risk

Credit risk is the risk of loss if another party fails to fulfil its financial obligations to the Society The main credit risks arise in relation to some types of investment such as corporate bonds, placing money on deposit with banks and the risk of failure of a reinsurer

The processes for the management of market risk in the Society also apply to credit risk in respect of cash, deposits and fixed interest securities

The Society's wholly owned subsidiary, Wesleyan Bank Limited, offers unsecured personal loans to existing medical, dental, teaching and legal clients of the Society All loans are subject to credit scoring guidelines This calculates the level of risk for each applicant based on the information obtained If the level of acceptable risk is exceeded the application is not accepted Stringent control measures and procedures are in place to monitor bad debt levels and recovery The level and occurrences of bad and doubtful debts are monitored daily and reported on a monthly basis to the Board of Wesleyan Bank Limited

Wesleyan Bank Limited ("the Bank") also provides commercial loans to law firms sourced by Wesleyan Key Business Finance Limited (WKBF), a fellow wholly-owned subsidiary of the Society, whereby WKBF acts as a broker A credit application approval policy is in place covering the acceptance of these loans

The Chief Actuary monitors the Society's credit risk exposure to reinsurers with reports to the Board as required Where possible, new reinsurance is diversified to avoid over-concentration on a single reinsurer

Other than risk of failure of a reinsurer, the Society's exposure to credit risk arises principally from its investment portfolio and from its holdings in bonds and cash in particular The investment policies and procedures stipulate approved counterparties, permitted investments and exchanges as well as detailing specific counterparty ratings and exposure limits For derivatives, the policy also details legal, collateral and valuation requirements Significant counterparty exposure, in the case of derivatives, is mitigated by the use of collateral and at 31 December 2013 the Society's custodians held collateral represented by AAA-rated assets valued at £43 5m (2012 £38 2m) Other areas where the Society is exposed to credit risk include amounts due from intermediaries and insurance contract holders An analysis of the risk profile of the Group's credit assets is provided in the table on page 65

There is no significant difference between the credit risk profile of the Society's and the Group's investments and, therefore, no separate table has been prepared for the Society-only position

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events

The Medical Sickness Society Fund (MSSF) is operated in accordance with the Scheme Merger documentation and is only exposed to risks arising from policies in MSSF itself

The Ordinary and Industrial Long-Term Business Fund (OILTBF) is exposed to the business risks of subsidiary companies as well as the business risks arising from the operation of long-term insurance itself The Board decides whether to undertake a particular business risk and has the responsibility for reviewing and setting a limit on the scale of such risks Where appropriate, limits will be set for individual risks

It is also exposed to risks arising from weaknesses in internal controls over operations and costs in excess of those allowed for in premium rates The Society undertakes a thorough risk assessment and management process each year

Wesleyan Bank Limited (the "Bank") has approved a specific policy as regards its operations which is disclosed in its financial statements

3(a). Earned Premiums

	2013			2012		
	Gross (£m)	Reinsurance (£m)	Net (£m)	Gross (£m)	Reinsurance (£m)	Net (£m)
Earned Premiums – Society						
Premiums written						
Life ordinary business						
Non-linked regular	**18 5**	**(1 8)**	**16 7**	18 1	(1 8)	16.3
Non-linked single	**86 5**	**–**	**86 5**	111 6	–	111 6
	105 0	**(1 8)**	**103 2**	129 7	(1 8)	127 9
Pension business						
Non-linked regular	**13 5**	**–**	**13 5**	13 4	–	13 4
Non-linked single	**16 7**	**–**	**16 7**	32 4	–	32 4
	30 2	**–**	**30 2**	45 8	–	45 8
Industrial business						
Non-linked regular	**0 5**	**–**	**0 5**	0 7	–	0 7
Income Protection Insurance						
Non-linked regular	**44 2**	**(13 4)**	**30 8**	45 6	(14 8)	30 8
With Profits ISA						
Regular	**23 2**	**–**	**23 2**	18 7	–	18 7
Single	**46 7**	**–**	**46 7**	79 5	–	79 5
	69 9	**–**	**69 9**	98 2	–	98 2
	249 8	**(15 2)**	**234 6**	320 0	(16 6)	303 4

The premiums received for investment contracts and therefore omitted from the above figures were as follows

	2013 (£m)	2012 (£m)
Life – regular	**3.3**	3 7
Life – single	**9.2**	12 4
Pension – regular	**25 4**	27 4
Pension – single	**7.2**	20 7
Income Protection – regular	**2.4**	2 8
	47 5	67 0

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

3(b). New Business Premiums

The below is stated in terms of Annual Premium Equivalent (APE), being 12 months' premium for regular business plus 10% of single premiums

In classifying new business premiums, the following bases of recognition have been adopted

- Recurrent single premium contracts are included as new business single premiums
- Increments under existing group pension schemes are classified as new business premiums

Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis

	2013 (£m)	2012 (£m)
Regular premiums	**21.3**	19 2
Single premiums	**20 3**	28 7
	41 6	47 9
Life ordinary business	**12 3**	15 8
Pension business	**4 9**	9 4
Income protection insurance	**4 7**	3 6
ISAs/Unit trusts*	**16 5**	15 5
	38 4	44 3
Annuities**	**3 2**	3 6
	41 6	47 9

* Represents the APE of investments in the Society's With Profits ISA and in the unit trusts managed by its subsidiary company, Wesleyan Unit Trust Managers Limited

** The annuities amount represents the pension funds retained by the Society on the vesting of pensions during the year

As set out in note 3(a), the Society does not account for the amount received as premiums in relation to investment contracts as premium income in the consolidated profit and loss account, such amounts are accounted for as deposits received and added to the investment contract liabilities in the balance sheet The amounts included above in respect of investment contracts new business are as follows

	2013 (£m)	2012 (£m)
Regular	**2 5**	2 0
Single	**1 6**	3 2
	4 1	5 2
Life ordinary business	**1 0**	1 3
Pension business	**3 1**	3 9
	4 1	5 2

3(c). Reassurance

The reassurance balance amounted to a credit to the Technical Account – Long-term Business at 31 December 2013 of £9 7m (2012 £5 3m)

4 Investment Activity Account

	2013 (£m)	2012 (£m)
Investment income		
Income from land and buildings	**16 8**	19 3
Income from other investments	**153 7**	141 8
Net gains on the realisation of investments	**27 0**	36 8
Net return on pension schemes (Note 24)	**0 3**	(0 7)
	197 8	197 2
Investment expenses	**(4 0)**	(4 1)
Investment charges	**(0 3)**	(0 3)
Net unrealised gains on investments	**321 6**	179 2
Investment return	**515 1**	372 0

5(a) Other Technical Income

	2013 (£m)	2012 (£m)
Net profit from non-insurance subsidiaries	**1 5**	4 3
Fee income in respect of investment contracts (Note 14)	**9 1**	8 2
	10 6	12 5

5(b). Other Technical Charges

	2013 (£m)	2012 (£m)
Net loss from non-insurance subsidiaries*	**10 4**	0 7

* In 2013, £10 4m represents the net loss of Wesleyan Financial Services Limited (2012 Net loss of Wesleyan Bank Limited of £0 7m)

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

6. Claims Incurred

	2013			2012		
	Gross (£m)	Reinsurance (£m)	Net (£m)	Gross (£m)	Reinsurance (£m)	Net (£m)
Claims paid	**269 5**	**(27 6)**	**241 9**	284 0	(28 7)	255 3
Claims handling expenses	**3 2**	**–**	**3 2**	3 5	–	3 5
	272.7	**(27 6)**	**245 1**	287 5	(28 7)	258 8
Change in provision for claims	**0 3**	**–**	**0 3**	(1 3)	–	(1 3)
	273 0	**(27 6)**	**245 4**	286 2	(28 7)	257 5
Analysed by type of benefit						
Death Claims			**15 4**			17 1
Maturities			**82 3**			90 5
Surrenders			**82 6**			86 9
Annuities			**50 3**			49 0
Income protection claims			**14 8**			14 0
			245 4			257 5

Claims relating to linked investment contracts and therefore omitted from the figures for claims incurred were as follows

	2013 (£m)	2012 (£m)
Death claims	**3 5**	3 3
Maturities	**0 3**	0 6
Surrenders	**46 8**	48 6
	50 6	52 5

7. Net Operating Expenses – Society only

	2013 (£m)	2012 (£m)
Acquisition costs	**31 8**	41 8
Administrative expenses*	**38 1**	31 2
Other Expenses **	**1 8**	7 7
Reassurance commission	**(1 9)**	(2 0)
Reassurance profit share	**(3 8)**	(4 2)
	66 0	74 5
Amortisation of goodwill	**1 1**	0 6
Net Operating Expenses	**67 1**	75 1

* Administrative expenses include a fee of £19 2m (2012 £15 4m) payable by the Society to the Group distribution company to cover in-force policy servicing costs This fee has been reflected in the net asset value of Wesleyan Financial Services Limited

** Relate principally to costs incurred on preparations for Solvency II and RDR

During the year the Group obtained the following services from the Society's auditor at costs as detailed below

	2013 (£'000)	2012 (£ 000)
Auditors' remuneration (including expenses) amounted to		
Fees payable to the Society's auditor for the audit of the parent company and consolidated financial statements	**186**	183
Fees payable to the Society's auditor for other services		
The audit of the Society's subsidiaries	**92**	105
Audit related assurance services	**130**	127
Taxation compliance	**72**	53
Taxation advice	**71**	63
Advisory Services	**16**	128
Administrative expenses for the Society also include		
Contract purchase finance charges – motor vehicles	**613**	120
Operating lease rentals – land and buildings	**659**	667
Depreciation of tangible assets	**4,551**	4,056

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

8. Staff Costs – Group

	2013 (£m)	2012 (£m)
Salaries and wages	**59 3**	52 5
Social security costs	**5 9**	5 4
Pension cost charge (Note 24)*	**6 9**	6 0
	72 1	63 9

* Includes £1 2m (2012 £0 9m) in respect of the Society's defined contribution scheme

The monthly average number of employees, including Executive Directors, during the year was comprised as follows

	2013 Number	2012 Number
Sales force	**385**	379
Head Office	**829**	765
	1,214	1,144

Note Details of Directors' remuneration are given in the Directors' Remuneration Report on pages 22 to 33

9. Taxation – Society only

	2013 (£m)	2012 (£m)
Analysis of tax in the year		
Current tax		
UK corporation tax on income and gains	**–**	(7 2)
Foreign tax	**(1 0)**	(1 3)
Adjustments in respect of previous years	**1 1**	(0 3)
Total current tax credit/(charge)	**0 1**	(8 8)
Deferred tax		
Origination and reversal of timing differences	**(7 2)**	(6 1)
(Decrease)/Increase in discount	**(14 1)**	4 0
Total deferred tax (Note 15)	**(21 3)**	(2 1)
Movement on deferred tax on pension scheme	**1 3**	0 3
Total tax charge – Society	**(19 9)**	(10 6)

The tax charge for UK corporation tax is provided at rates between 20% and 23 25% (2012 20% and 24 5%) computed in accordance with the rates applicable to life assurance companies whereby no tax is charged on pension business profits or PHI business profits

10(a). Investments – Group

	Current Value		Cost	
	2013 (£m)	2012 (£m)	2013 (£m)	2012 (£m)
Land and Buildings - Group and Society				
Freehold properties occupied by the Society	**23 0**	26 0	**30 2**	30 2
Other freehold properties	**170 1**	167 2	**104 9**	110 9
Long leasehold properties	**12 0**	12 3	**14 9**	14 9
	205 1	205 5	**150 0**	156 0
Other financial investments - Group				
Shares and other variable yield securities	**2,071 0**	1,787 9	**720 8**	719 1
Debt and other fixed income securities	**1,272 3**	1,317 3	**1,171 8**	1,134 2
Derivative financial instruments (Note 10c)	**46 6**	40 6	**42 4**	15 3
Other loans*	**120 9**	137 5	**121 4**	137 5
Deposits with credit institutions	**294 8**	302 4	**294 5**	296 9
	3,805 6	3,585 7	**2,350 9**	2,303 0
Other financial investments - Society				
Shares and other variable yield securities	**2,071 0**	1,787 9	**720 8**	719 1
Debt and other fixed income securities	**1,291 3**	1,314 2	**1,190 8**	1,118 7
Derivative financial instruments (Note 10c)	**46 6**	40 6	**42 4**	15 3
Other loans	**–**	0 1	**–**	0 1
Deposits with credit institutions	**226 6**	266 7	**226 3**	261 2
	3,635 5	3,409 5	**2,180 3**	2,114 4

The value of unlisted investments included in shares and other variable yield securities and debt and other fixed income securities for the Group amounted to £Nil (2012 £0 1m)

The value of unlisted investments included in shares and other variable yield securities and debt and other fixed income securities for the Society amounted to £22 5m (2012 £15 1m) This relates to loans issued to fellow Group companies

* Other Loans represent unsecured loans issued to customers by Wesleyan Bank Limited

	2013 (£m)	2012 (£m)
Non-linked assets subject to credit risk.		
AAA	**101 7**	1,213 9
AA	**1,124 7**	67 5
A	**182 5**	177 7
BBB	**128 7**	130 9
Below BBB or not rated	**45 9**	39 4
Total assets bearing credit risk	**1,583 5**	1,629 4
Derivative financial instruments	**46 6**	40 6
Debt securities (see table below)	**1,536 9**	1,588 8
Total assets bearing credit risk	**1,583 5**	1,629 4

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

10(a). Investments – Group continued

	2013 (£m)	2012 (£m)
Analysis of sovereign debt securities is as follows		
i) Sovereign debt by country		
UK	**1,025 2**	1,086 6
USA	**15 1**	17 7
Germany	**21 8**	23 0
France	**14 8**	15 4
European Investment Bank	**7 7**	9 3
	1,084 6	1,152 0
ii) Other debt securities		
UK Corporate Bonds	**393 9**	381 2
Corporate Bonds – Index-Linked	**58 4**	55 6
	452 3	436 8
	1,536 9	1,588 8

10(b). Assets held to cover Linked Liabilities

	Current Value		Cost	
	2013 (£m)	2012 (£m)	2013 (£m)	2012 (£m)
Other freehold properties	**11 0**	10 7	**5 6**	5 6
Shares and other variable yield securities	**882 2**	716 4	**508 8**	506 4
Debt and other fixed income securities	**112 2**	116 6	**78 5**	75 5
Deposits with credit institution	**66 2**	74 0	**66 4**	74 3
	1,071 6	917 7	**659 3**	661 8

10(c). Derivative Financial Instruments

	2013			2012		
	Contract/ Notional amount (£m)	Fair Value Asset (£m)	Fair Value Liability (£m)	Contract/ Notional Amount (£m)	Fair Value Asset (£m)	Fair Value Liability (£m)
Swaptions	**282 5**	**46 6**	**-**	172 0	40 1	-
Equity Collar	**111 7**	**-**	**(3 6)**	100 0	-	(2 0)
Interest Rate Collars	**50 0**	**-**	**(0 7)**	300 0	0 5	(0 1)
Total	**444 2**	**46 6**	**(4 3)**	572 0	40 6	(2 1)

10(d) Goodwill

	2013 (£m)	2012 (£m)
Cost		
At 1 January	3 7	3 5
Additions* (Note 18)	35 4	–
Disposals	–	–
Other Changes	0 1	0 2
At 31 December	39 2	3 7
Accumulated Amortisation		
At 1 January	1 6	1 0
Charge for the year	1.2	0 6
Disposals	–	–
Impairment in year	–	–
At 31 December	2 8	1 6
Net Book Amount		
At 31 December	36 4	2 1

* The Goodwill arising on acquisition of Practice Plan is being amortised on a straight-line basis over 15 years This is the period over which the Directors estimate that the value of the underlying business is expected to exceed the value of the underlying assets

11. Other Debtors

	Group		Society	
	2013 (£m)	2012 (£m)	2013 (£m)	2012 (£m)
Other debtors	7 2	2 0	2 6	1 2
Deferred tax	0 1	0 1	–	–
	7 3	2 1	2 6	1.2
Movement in the deferred tax asset.				
As at 1 January	0 1	0 1	–	–
Credited	–	–	–	–
As at 31 December	0 1	0 1	–	–
Analysed as follows				
Timing Differences	0 1	0 1	–	–

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

12. Tangible Fixed Assets

	Group			
	Total (£m)	Computer equipment and software (£m)	Furniture and Fittings (£m)	Motor Vehicles (£m)
Cost				
At 1 January 2013	44 0	28 9	3 6	11 5
Additions	9 3	7 6	0.3	1 4
Acquisition of subsidiary undertaking*	0 5	0 2	0 3	–
Disposals	(8 8)	(7 7)	(0 3)	(0 8)
At 31 December 2013	**45 0**	**29 0**	**3 9**	**12 1**
Accumulated Depreciation				
At 1 January 2013	22 9	18 5	1 7	2 7
Charge during the year	4 5	1 7	0 3	2 5
Disposals	(8 2)	(7 5)	(0 3)	(0 4)
At 31 December 2013	**19 2**	**12 7**	**1 7**	**4 8**
Net Book Amount				
At 31 December 2013	**25 8**	**16 3**	**2 2**	**7 3**
At 31 December 2012	21 1	10 4	1 9	8 8

	Society			
	Total (£m)	Computer equipment and software (£m)	Furniture and Fittings (£m)	Motor Vehicles (£m)
Cost				
At 1 January 2013	44 0	28 9	3 6	11 5
Additions	9 3	7 6	0 3	1 4
Disposals	(8 8)	(7 7)	(0 3)	(0 8)
At 31 December 2013	**44 5**	**28 8**	**3 6**	**12 1**
Accumulated Depreciation				
At 1 January 2013	22 9	18 5	1 7	2 7
Charge during the year	4 5	1 7	0 3	2 5
Disposals	(8 2)	(7 5)	(0 3)	(0 4)
At 31 December 2013	**19 2**	**12 7**	**1 7**	**4 8**
Net Book Amount				
At 31 December 2013	**25 3**	**16 1**	**1 9**	**7 3**
At 31 December 2012	21 1	10 4	1 9	8 8

* Included within the Group Tangible Fixed Assets is £0 2m of computer equipment and £0 3m of furniture and fittings, acquired as part of the acquisition of Practice Plan during 2013

The cost of motor vehicles held under contract purchase agreements amounted to £12 0m (2012 £11 5m) The aggregate depreciation of these assets amounted to £2 5m (2012 £2 7m)

13 Fund for Future Appropriations and Capital Management

Fund for Future Appropriations

	2013 (£m)	2012 (£m)
At 1 January	**653 2**	585 2
Transfer (from)/to profit and loss account	**(27 7)**	68 0
At 31 December*	**625 5**	653 2

* Includes the General Business Fund in the amount of £2 8m (2012 £2 8m) referred to in Note 23

Capital Management

(i) Overview
In reporting the Society's financial strength, capital and solvency are measured using the regulations prescribed by the PRA These regulations include a number of "regulatory" and "realistic" capital tests, as described below The Society is able to meet all of these capital requirements and has significant resources and financial strength

(ii) Capital management policies and objectives
The Society's main objectives in managing its estate (which represents its capital) are

- To meet regulatory capital requirements,
- To support the writing of new business,
- To maintain investment flexibility,
- To smooth payouts to with profits policyholders, and
- To provide finance for business developments

(iii) Restrictions on available capital resources
The Society is required to hold sufficient capital to meet the PRA's capital requirements

Pillar 1
The Pillar 1 capital requirement is reported in the publicly available PRA Return Under the PRA's realistic reporting regime, the Pillar 1 capital requirement for with profits business is determined using the "twin peaks" approach, such that the capital resources must be sufficient to cover the greater of regulatory (Solvency I) and realistic liability capital requirements The realistic capital requirement is broadly equivalent to the capital needed by an "average" life insurance company with good risk controls, to cover adverse experience likely to occur once in every 200 years For non-profit business, the capital requirement is calculated on the regulatory basis, which is based on EU Directives (Solvency I)

Pillar 2
The Pillar 2 capital requirement is based on the Society's Individual Capital Assessment (ICA), which is reported privately to the PRA It is broadly equivalent to the capital needed to cover the Society's actual portfolio of risks at the same "one in 200 year" risk level, but having regard to the Society's own risk controls

(iv) Available capital resources
The Society has two with profits funds, the OILTBF and the MSSF, which are shown separately in the capital position statement The MSSF was set up under the terms of the Scheme for the merger with Medical Sickness Annuity and Life Assurance Society Limited on 1 July 1997 It contains all the with profits policies of Medical Sickness Society on that date and is maintained as a separate account within the Society's Long-Term Business Fund The OILTBF contains all of the business of the Society other than the business in the MSSF

Under the merger Scheme, the whole of the surplus in the MSSF is progressively and equitably distributed to the policies in that fund This means that for the purpose of the capital statement there are no excess assets in the fund However, some surplus is being held back in the fund to provide regulatory capital that may be required under stressed financial conditions

Available capital resources are calculated in accordance with the Pillar 1 realistic balance sheet, and can be broadly described as placing a market value on the net assets including the value of future profits on all acquired in-force long-term business as well as on non-participating business issued by the Society

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

13. Fund for Future Appropriations and Capital Management continued

Available capital resources

	OILTBF 2013 (£m)	MSSF 2013 (£m)	Total 2013 (£m)	OILTBF 2012 (£m)	MSSF 2012 (£m)	Total 2012 (£m)
Fund for Future Appropriations	**624 9**	**0 6**	**625 5**	652 5	0 7	653 2
Adjustments to assets	**(80 3)**	**–**	**(80 3)**	(69 4)	–	(69 4)
Other adjustments	**(8 6)**	**(0 6)**	**(9 2)**	(27 3)	(0 7)	(28 0)
Total available capital resources	**536 0**	**–**	**536 0**	555 8	–	555 8
Risk Capital Margin	**30 2**	**–**	**30 2**	36 4	–	36 4
Cover for Risk Capital Margin	**17 8 times**	**–**	**17 8 times**	15 3 times	–	15 3 times

(v) Movements in available capital resources

	OILTBF (£m)	MSSF (£m)	Total business (£m)
Balance at 1 January 2013	**556**	**–**	**556**
Modelling improvements	(19)	5	(14)
Effect of method changes	(8)	–	(8)
Effect of investment variations	63	12	75
Effect of experience variations	(34)	(24)	(58)
Effect of assumption changes	(3)	(3)	(6)
New Business	(2)	–	(2)
Other factors	(17)	10	(7)
Balance at 31 December 2013	**536**	**–**	**536**

The table above shows key elements of the movements in realistic capital The impact from assumption changes includes

- Economic, persistency, mortality, expense and regulatory valuation assumption changes, and
- Their effects on the costs of guarantees, options and smoothing, the value of in-force business and the with profits benefit reserve

The most significant factor affecting both funds is the strong investment return in 2013, which has reduced the value of policy guarantees and results in the positive investment variance shown The MSSF is most affected by experience variations, which include enhancements made to asset shares to keep this fund in balance There were no changes in management policy assumed for determining the cost of guarantees, options and smoothing and no significant changes in regulation or other similar external developments

Realistic Balance Sheet
Realistic available capital is determined in accordance with the Capital Management policies described above

With profits liabilities comprise asset shares plus the costs of smoothing plus the value of guarantees and options which have been granted to policyholders When calculating these liabilities, allowance has been made for actions that management would be expected to undertake on key assumptions, for example future bonus policy in varying market conditions, in line with the Society's PPFM

The Risk Capital Margin (RCM) represents the level of capital that the Society is required to hold in the Pillar 1 stress event The RCM is calculated assuming that risk free yields fall (2012 risk free yields rose), that equity and property markets fall (2012 equity and property markets fell), persistency improves (2012 persistency improved) and credit risk increases (2012 credit risk increased) as per the regulations Credit risk is allowed for by assuming an immediate and permanent widening in yield spreads on corporate bonds over risk free rates, calculated on a stock-by-stock basis

Realistic Balance Sheet continued

A summary Realistic Balance Sheet is shown below

	2013 (£m)	2012 (£m)
Total regulatory with profits assets	**2,883 6**	2,571 2
Value of in-force non-profit business on a realistic basis	**311 2**	300 8
Total Realistic With Profits Assets	**3,194 8**	2,872 0
Realistic with profits liabilities		
– With profits benefit reserve	**2,335 2**	1,911 1
– Costs of smoothing	**(9 7)**	(7 6)
– Guarantees	**40 9**	92 4
– Options (guaranteed annuities)	**68 2**	81 2
– Other (incl. current liabilities)	**224 2**	239 1
Total Realistic With Profits Liabilities	**2,658 8**	2,316 2
Total Realistic Available Capital	**536 0**	555 8
Risk Capital Margin	**(30.2)**	(36 4)
Total Realistic Excess Capital	**505 8**	519 4

Analysis of Liabilities

	2013 (£m)	2012 (£m)
With profits insurance contract liabilities	**2,044 3**	1,775 7
With profits investment contract liabilities with DPF	**441 6**	365 6
Non-participating insurance contract liabilities		
– Non-linked liabilities	**972 6**	1,062.3
Non-participating investment contract liabilities		
– Unit linked	**1,071 6**	917 7
Total Contract Liabilities	**4,530 1**	4,121 3

Analysis of change in present value of future profits on non-profit business written in the With Profits Fund

	2013 (£m)	2012 (£m)
At 1 January	**250 5**	185 0
Unwind of discount rate	**9 2**	5 0
Profit released in the year	**(20 1)**	(24 5)
Value of new business	**16 1**	14 0
Experience variances	**8 8**	5 4
Economic assumption changes	**9 9**	69 6
Insurance assumption changes	**(6 8)**	(5 2)
Other	**(3 5)**	1 2
At 31 December	**264 1**	250 5

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

13. Fund for Future Appropriations and Capital Management continued

Sensitivity of capital

The capital position of the Society is sensitive to changes in economic conditions and financial markets, both through the impact on asset values and also the effect that changes in interest rates and investment returns may have on liability valuations The liabilities are also sensitive to the other assumptions that have been used in their calculation, such as mortality and persistency The Society's approach to managing these risks is detailed in Note 2

(i) Economic conditions and financial markets

The liability valuation will include assumptions about future interest rates and investment returns An adverse change in either variable will increase liabilities and hence reduce the available capital, depending upon the extent to which assets with similar anticipated cash flows match the liabilities

To the extent that it cannot be reflected in reductions in payments to policyholders because of the presence of guarantees and options in the underlying contracts, an adverse change in the markets for the Society's investment assets will reduce the available capital

(ii) Other assumptions

The Society monitors actual experience in mortality, morbidity and persistency rates against the assumptions used, and applies that outcome to refine its long-term assumptions Amounts paid will inevitably differ from estimates, particularly when the expected payments do not occur until well into the future Liabilities are evaluated at least half yearly, allowing for changes in the assumptions used, as well as for the actual claims experience If actual claims experience is less favourable than the underlying assumptions, or if it is necessary to increase provisions in anticipation of a higher rate of future claims, then available capital will be reduced

(iii) Main sensitivities

The most significant potential causes of a worsening of the Society's capital position arise from the following four risks

- Market risk in relation to with profits business, which would arise if adverse changes in the value of the assets supporting this business could not be fully reflected in payments to policyholders because of the effect of guarantees and options, particularly guaranteed annuity options The capital position of this business would also deteriorate if increases to the market cost of derivatives resulted in an increase in the market-consistent liability for guarantees and options in the Realistic Balance Sheet
- Longevity risk in relation to annuity business, which would arise if the mortality of annuitants improved more rapidly than the assumptions used for reserving
- Morbidity risk in relation to income protection business, which would arise if morbidity of the lives insured was heavier than that assumed
- Credit risk in relation to reassured liabilities, particularly income protection liabilities, which would arise if the credit rating of the reassurers or their ability to meet their liabilities were to deteriorate

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed to reflect it In this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on the capital position Examples of possible management actions include changes to with profits bonus rates and changes to discretionary surrender terms

A sensitivity analysis reflecting the impact of changes to mortality, morbidity, persistency, expense and market assumptions on the Society's realistic available capital is provided below

The separate investment strategy for the assets backing policy asset shares described in the Market Risk Overview on page 54 enables a low market risk strategy to be adopted for capital without impacting on the long-term investment returns for with profits policyholders This means that the capital position of the Society is less sensitive to changes in economic conditions and financial markets and is reflected in a low value for the Risk Capital Margin

Sensitivity analysis

The table at the end of this section shows sensitivities to movements in the assumptions used at 31 December 2013

The sensitivities are shown separately for

- Realistic available capital, and
- Value of in-force non-profit business

The impacts of the value of in-force non-profit business are more significant than the changes in realistic available capital This is because, this year, much of the emerging losses from non-profit and unit-linked business in the stressed conditions would be charged to with profits policyholders and hence would reduce the Society's liabilities

Sensitivity analysis continued

For the demographic and expense assumptions, sensitivities are only shown in one direction as an equal and opposite movement in the variable would, for the majority of business, have a similar but opposite impact on the value of insurance and investment contract liabilities

For the economic assumptions, we have shown the effect of both a parallel upwards and downwards shift in the interest rate yield curve because the impact on liabilities is not symmetrical However, we have only shown a decrease in capital values of property and equity because an increase in these values would result in a similar but opposite effect being observed

(i) Demographic

Annuitant longevity

10% proportionate decrease in base mortality rates.

This sensitivity demonstrates the effect of a decrease in the rate of deaths For annuity business and policies that contain a guaranteed annuity option a decrease in mortality rates will increase the liability, as the average period over which annuity payments have to be made will be extended This will also reduce the non-profit value of in-force

Assurance mortality

10% proportionate decrease in base mortality rates.

This sensitivity demonstrates the effect of a decrease in the rate of deaths For life assurance business a decrease in mortality rates will typically decrease the liabilities and increase the non-profit value of in-force, as there will be fewer payouts for early death

Morbidity

10% proportionate decrease in base morbidity rates

This sensitivity demonstrates the effect of a decrease in the rate of serious illness

Persistency

10% proportionate decrease in lapse rates

This sensitivity reflects a single, downward movement in lapse rates This means that fewer policies are being surrendered or terminated early, with the result that more policies are assumed to remain in-force For non-participating business a decrease in lapse rates will tend to increase the value of in-force business However, for participating business, a decrease in lapse rates will increase the liability as more policies are assumed to remain in-force to exercise guarantees and options

(ii) Expenses

10% decrease in maintenance expenses, the ongoing cost of administering contracts

This sensitivity is applied to the projected level of expenses There is no change to the assumed rate of future expense inflation A reduction in expenses will increase the value of in-force business for non-participating business

(iii) Economic

Interest rates

A reduction of 0 61% (2012 0 41% reduction) and an increase of 0 61% (2012 0 41% increase) in interest rates This sensitivity is designed to show the impact of a sudden parallel shift in the risk-free yield curve A reduction in interest rates increases the current market value of fixed interest assets but reduces future reinvestment rates

The value of liabilities is also increased when the interest rates fall as the discount rate used in the calculation will be reduced An increase in rates will have the opposite effect The sensitivity test for interest rates is market related and this can give rise to non-symmetrical increases and decreases The test is consistent with the market-related test required to calculate the Risk Capital Margin, which is disclosed in the Society's PRA Returns

Equity capital values and property capital values

20% decrease in equity and 12 5% decrease in property capital values at the valuation date, without a corresponding fall or rise in dividend yield

This sensitivity shows the impact of a sudden change in the market value of assets The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values Consequently, the realistic available capital will be reduced by a fall in asset values The test is consistent with the market related test required to calculate the Risk Capital Margin, which is disclosed in the Society's PRA Returns

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

13. Fund for Future Appropriations and Capital Management continued

(iv) Increase/(reduction) in value due to change in variable

Description of sensitivity	Impact on realistic available capital 2013 (£m)	Impact on realistic available capital 2012 (£m)	Impact on value of in-force non-profit business 2013 (£m)	Impact on value of in-force non-profit business 2012 (£m)
Demographic				
10% reduction in annuitant longevity	**(3)**	(2)	**(17)**	(20)
10% reduction in assurance mortality	**–**	–	**1**	1
10% reduction in morbidity	**2**	1	**17**	22
10% reduction in lapses	**(1)**	(3)	**5**	5
10% reduction in expenses	**1**	1	**4**	5
Economic				
0 61% increase in interest rates (2012 0 41% increase)	**(9)**	(15)	**(14)**	(9)
0 61% reduction in interest rates (2012 0 41% reduction)	**10**	17	**15**	9
20% equity fall, 12 5% property fall	**(37)**	(64)	**(11)**	(9)

14. Long-term Business Provision and Technical Provision for Linked Liabilities

	Long-term Business Provision			
	Insurance Contracts (£m)	Investment Contracts with DPF (£m)	Total (£m)	Provision for Linked Liability (£m)
Gross provision				
At 1 January 2013	2,951 2	365 6	3,316 8	917 7
Change in technical provisions	170 6	76 0	246 6	153 9
At 31 December 2013	**3,121 8**	**441 6**	**3,563 4**	**1,071 6**
Reinsurers' share				
At 1 January 2013	113 2	–	113 2	–
Change in technical provisions	(8 3)	–	(8 3)	–
At 31 December 2013	**104 9**	–	**104 9**	–

Change in technical provision for linked liabilities

	2013 (£m)	2012 (£m)
The change in liabilities on investment contracts comprises		
Premiums received (Note (3a))	**47 5**	67 0
Claims paid (Note 6)	**(50 6)**	(52 5)
Fee income deducted (Note (5a))	**(9 1)**	(8 2)
	(12 2)	6 3
Allocation of net investment return	**166 2**	58 8
Increase in technical provisions for linked liabilities	**154 0**	65 1

Liability Analysis (net of reinsurance)	OILTBF 2013 (£m)	MSSF 2013 (£m)	Total business 2013 (£m)	OILTBF 2012 (£m)	MSSF 2012 (£m)	Total business 2012 (£m)
With profits liabilities on realistic basis						
Options and guarantees	**48 1**	**60 9**	**109 0**	90 2	83 4	173 6
Other policyholder obligations	**1,876 1**	**500 8**	**2,376 9**	1,514 0	453 7	1,967 7
Total with profits liabilities	**1,924 2**	**561 7**	**2,485 9**	1,604 2	537 1	2,141 3
Non-profit life assurance	**969 4**	**3 2**	**972 6**	1,057 7	4 6	1,062 3
Total long-term business provisions	**2,893 6**	**564 9**	**3,458 5**	2,661 9	541 7	3,203 6
Linked provisions	**1,071 6**	**–**	**1,071 6**	917 7	–	917 7
Technical provisions in balance sheet	**3,965 2**	**564 9**	**4,530 1**	3,579 6	541 7	4,121 3

Bonuses

Bonuses allocated to in-force With Profits policies increase the liabilities for with profits insurance and investment contracts and represent an allocation of surplus The total bonus attributable to the year consisted of the following amounts

Society	2013 (£m)	2012 (£m)
Bonuses paid as claims (including terminal bonus)	**55 6**	49 8
Bonuses allocated to policies in-force at 31 December	**6.2**	5 2
Total	**61 8**	55 0

Valuation basis

(i) With profits and unit-linked business

As described in Note 2, some of the Society's policies contain options and guarantees that can increase the benefits payable to the policyholder

Unit-linked policies have been valued at the face value of the units, using unit prices derived from the valuation of the underlying assets Provisions are also held to cover non-unit cash flows under investment contracts which use prudent estimates of mortality and future expenses

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

14. Long-term Business Provision and Technical Provision for Linked Liabilities continued

The principal assumptions in determining the cost of options and guarantees in the long-term business provision in respect of With Profits business and in determining the long-term provision for non-profit insurance contracts attached to unit-linked business are as follows

Expenses Per policy expenses (quoted gross of any tax relief)	2013 (£)	2012 (£)
Open Fund		
Ordinary business		
Life and Pensions – Premium Paying	**75 75**	65 00
Life and Pensions – Annuities	**50 50**	43 33
Life and Pensions – Single Premium/Paid Up	**50 50**	43 33
Income Protection	**75 75**	65 00
Industrial assurance business		
Premium Paying	**8 25**	8 00
Paid Up	**2 10**	2 00
MSS Fund		
Pensions – Premium Paying	**125 22**	120 47
Income Protection	**93 92**	90 36
Life – Premium Paying, Pensions – Single Premium/Paid Up	**62 61**	60 24

	2013 (%)	2012 (%)
% of Premium Expenses		
Open Fund		
Industrial assurance business		
Premium Paying/Premium Loan	**22.00**	22 00
Investment Expenses – % of fund		
Open Fund	**0 071**	0 066
MSS Fund	**0 080**	0 080

Other significant assumptions impacting the cost of options and guarantees are equity volatility and correlation Expected returns on assets and volatilities have been calibrated to ensure consistency with market values at an appropriate term for our anticipated liability profile The cost of guarantees will be higher with higher investment volatility The correlation of investment returns assumed has been based on management's view of historic equity and gilt returns

In calculating liabilities, allowance has been made for the impact of future management actions consistent with those set out in the PPFM The most significant of these management actions are those that result in changes to assumed levels of bonus depending on market conditions Management reserve the right to change the investment strategy in extreme conditions but this has not been reflected in these calculations

Guarantee costs arise as a result of providing benefits at a level equal to the guaranteed sum assured and any accrued annual bonus under a contract, where this exceeds the policy asset share, whether on death, maturity or guaranteed surrender

Providing benefits in accordance with formula based surrender scales which take into account sums assured and accrued bonuses may also give rise to guarantee costs where the resulting surrender value exceeds the policy asset share

Unitised with profits business has low initial guarantees and almost all policies support a terminal bonus at 31 December 2013 No market value reductions (MVRs) applied on early surrender or transfer at that date, and no MVRs were applied during 2013

(i) With profits and unit-linked business continued

Option costs arise from the cost of providing guaranteed annuity options at retirement for pension contracts where the annuity provided is on more favourable terms than those implied by market interest rates Guaranteed annuity options are generally considerably in the money but apply to relatively few policies, except in the MSSF where derivative assets are held to hedge the interest rate risk

Smoothing represents costs (which may be positive or negative) associated with smoothing with profits payouts such that benefits payable, after applying agreed bonus scales, differ from the with profits benefit reserve for the contract

All options and guarantees were measured at fair value using a market-consistent stochastic model Expense assumptions were based upon analysis of experience during 2013 These experience assumptions were also compared against previous valuation assumptions Expense inflation was assumed to be constant at 3 8% (2012 3 9%) per annum, being 0 4% (2012 1 15%) per annum above the implied price inflation from UK Government long dated index-linked and conventional gilts

Assumptions for future mortality, morbidity and persistency are intended to represent a best estimate of future experience Investigations are undertaken on a regular basis to assess the experience of the business

Where appropriate, the Society's mortality experience was analysed over previous years The results of these analyses were considered relative to UK industry-standard tables with adjustments where appropriate

Persistency rates are assumed to vary according to policy duration and by broad class of policy The rates experienced were smoothed, after considering the significance of the data In particular, smoothing is required where there are only few policies and lapse experience is limited

(ii) Non-participating insurance business (other than contracts attached to unit-linked business)

Certain conventional non-profit policies have been valued using the net premium method Annuities in payment have been valued by discounting future annuity payments and expenses

The assumptions used in the valuation of non-profit policies are prudent estimates of likely future experience The interest rates used for discounting were established by considering the expected yields obtainable on the assets backing each class of policy These yields were adjusted to allow for credit risk in line with the rules and guidance issued by the PRA and the Society's own judgement of the extent of the risk

The mortality rate assumptions used are the Society's assessment of prudent levels of current mortality and, for annuities, the future rate of improvement For income protection policies, the assumed level of morbidity is set at a prudent margin above the Society's own recent experience, the margin being sufficient to allow for the possible future deterioration in experience but also for the Society's right to review premiums for many policies if morbidity experience changes

Premiums are assumed to be paid in line with the policy conditions

For non-participating business which is written in the OILTBF, the long-term insurance liabilities were calculated on a prudent prospective basis determined as the present value of future benefits payable to policyholders plus the present value of future expenses less the present value of future premiums An adjustment of £264 1m (2012 £250 5m) was then applied to these liabilities to allow for the present value of future profits on non-participating business (PVFPNP)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

14 Long-term Business Provision and Technical Provision for Linked Liabilities continued

The principal assumptions made for non-profit business were as follows

	2013 (%)	2012 (%)
Rates of Interest		
Ordinary business		
Life assurances	**2 30**	1 70
Pensions	**2 90**	2 15
Pension term assurances	**2 90**	2 15
Industrial assurance business		
Life assurance (paid-up)	**2 30**	1 70
Mortality		
Ordinary business		
Life assurances	**88%/77% AMC/AFC00 U**	88%/77% AMC/AFC00 U
Pensions	**None in deferment 114%/114% RMV/RFV00[1]**	None in deferment 113%/113% RMV/RFV00[2]
ASW Pensions	**75% AM/AF92 U in deferment. 114% PCMA/PCFA00[1]**	75% AM/AF92 U in deferment, Male/Female 109%/145% PCMA/PCFA00[2]
Pension term assurance	**66% RMD/RFD00**	66% RMD/RFD00
MSS Pension in payment	**71%/81% RMV/RFV00[1]**	66%/66% RMV/RFV00[2]
Industrial assurance business		
Life assurances	**15% ELT14M-4**	15% ELT14M-4

[1] Adjusted with improvements of 100% of CMI_2012 mortality improvement model (core assumption, 2 25%/2 0% long-term improvement factor to age 90, with improvements tapering to 0% at age 120)

[2] Adjusted with improvements of 100% of CMI_(2011) mortality improvement mode (core assumption, 1 5%/1 25% long-term improvement factor to age 90, with improvements tapering to 0% at age 120) A further 0 5% constant addition to mortality was applied

A prudent assessment was made of persistency in calculating the liabilities for non-participating business Withdrawals or cessation of premiums are assumed where this would lead to an increase in the provision

Rates of interest used are set according to a prudent assessment of the future returns available from the investments backing the Fund Mortality assumptions are set by reference to publicly available tables, adjusted and validated against actual experience Future expenses are based on recent expense experience, adjusted for inflation and with a margin for prudence

The amount of the provision is dependent upon interest rates assumed A reduction in the interest rate would reduce the impact of discounting and hence raise the long-term business provision A reduction in risk discount rate would increase the value of in-force business This in turn would cause a reduction in the long-term provision The provision is also dependent upon the mortality experience assumed A reduction in future mortality assumed would increase the provision for annuity business and decrease the provision for assurances The long-term business provision makes allowance for any future valuation strain Sufficient assets are allocated to cover future strain where it is deemed that this will arise

15. Provisions for Other Risks and Charges

Group	Vacant Properties (£m)	Deferred Tax (£m)	Other (£m)	Total (£m)
At 1 January 2013	0 6	47 0	3 3	50 9
Charged/(Utilised) during year	(0 1)	21 3	(0 2)	21 0
At 31 December 2013	**0 5**	**68 3**	**3 1**	**71 9**

Society	Vacant Properties (£m)	Deferred Tax (£m)	Other (£m)	Total (£m)
At 1 January 2013	–	47 0	–	47 0
Charged during year	–	21 3	–	21 3
At 31 December 2013	**–**	**68 3**	**–**	**68 3**

Following restructuring, the Group has a number of vacant and partly-let leasehold properties Provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing and future sub-tenant arrangements

Deferred tax provided in the financial statements in respect of the total liability is as follows

Group and Society	2013 (£m)	2012 (£m)
Timing differences in respect of investment values	**80 0**	69 8
Deferred acquisition costs	**(8 0)**	(8 2)
Other timing differences	**(3 7)**	(0 5)
Discount*	**–**	(14 1)
	68 3	47 0

* In 2013 no discounting has been applied to deferred tax which is a change in the accounting policy this year This has resulted in a £14 1m charge to profit and loss

The provision for deferred tax on unrealised gains on linked assets is included in technical provisions for linked liabilities and amounts to £4 4m (2012 £2 2m)

16. Deposits Received from Reinsurers

During 2011, the Society undertook a financing transaction by restructuring its existing Income Protection reassurance arrangement An advance payment was received of £82 9m on 16 December 2011 in return for a commitment to pay a series of future claim rebates, which will be offset against future reinsurance claim recoveries in the period to 2034 At 31 December 2013, £66 5m (2012 £73 9m) of this deposit remains outstanding

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

17. Other Creditors Including Taxation and Social Security Payable Within Five Years

	Group		Society	
	2013 (£m)	2012 (£m)	2013 (£m)	2012 (£m)
Contract purchase agreements	7 3	8 8	7 3	8 8
Amounts payable to subsidiary undertakings	–	–	5 9	4 7
Other creditors	11 8	9 7	3 4	4 4
Taxation and social security	2 7	6 0	0 7	4 4
	21 8	24 5	17 3	22 3

All balances payable are due within one year apart from contract purchase agreements detailed below

	Group		Society	
	2013 (£m)	2012 (£m)	2013 (£m)	2012 (£m)
Under one year	2 4	0 3	2 4	0 3
In the second to fifth years inclusive	4 9	8 5	4 9	8 5
	7 3	8 8	7 3	8 8

18. Acquisition

On 22 October 2013 Wesleyan Assurance Society acquired the whole of the issued share capital of Practice Plan Holdings Limited for a cash consideration of £18 7m

Acquisition accounting has been used to account for the purchase

In its last financial year to 30 June 2013, Practice Plan Holdings Limited made a profit before tax of £1 2m For the period since that date to the date of acquisition, Practice Plan management accounts show a profit before tax of £0 6m There were no transactions between Wesleyan Assurance Society and the acquired subsidiary prior to the date of acquisition

Impact of the acquisition on the current year's results
Practice Plan contributed £0 2m to the Wesleyan Group's 'Other Technical Income' during the current year

Acquired Assets and liabilities, fair value adjustments and goodwill

	Book Values (£m)	Fair Value adjustment (£m)	Fair values of net assets on acquisition (£m)
Tangible Fixed Assets	1 0	(0 5)	**0 5**
Debtors	0 4	–	**0 4**
Cash	7 6	–	**7 6**
Creditors	(2 6)	(0 1)	**(2 7)**
Loans*	(22 5)	–	**(22.5)**
Total Identifiable Assets	**(16 1)**	**(0 6)**	**(16 7)**
Cash Consideration			18 7
Goodwill			35 4

* The fixed interest loan of £22 5m was provided to Practice Plan from Wesleyan Assurance Society on the date of acquisition to replace external debt

The book values of the assets and liabilities have been taken from the management accounts of Practice Plan as at 22 October 2013

Adjustments made to the fair value of assets and liabilities acquired include the value of tangible fixed assets, creditors and other adjustments recognised in accordance with Financial Reporting Standard 7 (Fair Values in Acquisition Accounting)

19. Capital Commitments

Commitments authorised or contracted for but for which no provision had been made at the balance sheet date totalled £11 4m (2012 £2 8m)

20. Financial Commitments

At 31 December 2013 the Group had annual commitments under non-cancellable operating leases relating to land and buildings expiring as follows

	2013 (£m)	2012 (£m)
Within one year	–	0 1
Within two to five years	**0 4**	0 2
After five years	**0 1**	–
	0 5	0.3

21. Investment in Subsidiaries

	Proportion of capital held by the Society (%)	Society Cost/Value of Investment 2013 (£)	2012 (£)
The subsidiaries of the Society, all of which are incorporated and registered in England, are			
Wesleyan Trustees Limited	100 00	**100**	100
Wesleyan Unit Trust Managers Limited	100 00	**1,000,000**	1,000,000
Wesleyan Bank Limited	100 00	**22,500,000**	21,500,000
Wesleyan Administration Services Limited	100 00	**100,000**	100,000
Wesleyan Financial Services Limited	100 00	**68,761,900**	58,761,900
Wesleyan Key Business Finance Limited	100 00	**3,839,197**	3,839,197
Practice Plan Holdings Limited	100 00	**18,679,631**	–
Medical Sickness Limited	100 00	**2**	2
Medical Sickness Financial Planning Limited	100 00	**1**	1
Medical Sickness Annuity and Life Assurance Society Limited	100 00	–	–
Medical Sickness Society Limited	100 00	–	–
Insurecheer Limited	100 00	**2**	2
John Wesley Bank Limited	100 00	**2**	2
J Wesley Bank Limited	100 00	**2**	2
Wesleyan SIPP Trustees Limited	100 00	**2**	2
Key Business Finance Limited	100 00	**1**	1
Key Business Finance Corporation Limited	100 00	**1**	1
Wesleyan Staff Pension Trustees Limited	100 00	**1**	1
Cost of shares held in subsidiaries		**114,880,842**	85,201,211
Difference in cost and net asset value		**(89,605,291)**	(45,597,539)
Shares held in subsidiaries – net asset value		**25,275,551**	39,603,672
Current value of investments in excess of their net asset value		**36,425,491**	2,050,139
		61,701,042	41,653,811

The Directors believe that the carrying value of the investments is supported by their net asset value

All subsidiaries have only one class of issued ordinary shares and the voting rights are equal to the percentage holdings

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

21. Investment in Subsidiaries continued

Company	Principal Activities
Wesleyan Trustees Limited	To provide nominee services to the Trustee of the Wesleyan Staff Pension Scheme
Wesleyan Unit Trust Managers Limited	To act as the operator of the Wesleyan range of unit trusts
Wesleyan Bank Limited	To provide banking and unsecured lending services
Wesleyan Administration Services Limited	To provide administrative services to members of the Group
Wesleyan Financial Services Limited	To act as the distribution arm of the Group's insurance and investment activities
Wesleyan Key Business Finance Limited	To broker unsecured lending services to lawyers and legal firms, including those of Wesleyan bank.
Practice Plan Holdings Limited	Through its trading companies Practice Plan Limited and Practice Plan Insurance Limited, Practice Plan provides practice branded maintenance plans and support services to the UK dentistry market
Wesleyan SIPP Trustees Limited	To act as bare trustee of the Wesleyan SIPP
Wesleyan Staff Pension Trustees Limited	To act as corporate trustee of Wesleyan Staff Pension Scheme

The remaining entities are dormant or non trading

22 Contingent Liabilities

The balance sheet of Wesleyan Bank Limited ("the Bank") includes loans to customers amounting to £1 7m (2012 £1 8m), which are secured on life policies taken out with Wesleyan Assurance Society The Society has guaranteed these loans

The Society, by an agreement dated 2nd July 1998 as amended, has placed at the disposal of the Bank an irrevocable overdraft facility not exceeding £10m to cover any liquidity risk issues In addition to the irrevocable overdraft facility, by agreement dated 24 December 2012, the Society placed at the disposal of the Bank a continuing committed loan facility of up to £40m The Society has confirmed to the PRA that, whilst noting that its legal liability is limited to the face value of its shareholding, it recognises a moral responsibility to ensure that the Bank continues at all times to meet its obligations

In addition the Society has guaranteed the repayment of the mutual gold fixed term bonds issued by the Bank up to a maximum sum of £0 25m (2012 £0 25m) for an individual or £0 5m (2012 £0 5m) for a joint account in the event that the Bank fails to repay such amounts The total value of these bonds held by customers at 31 December 2013 was £10 4m (2012 £12 9m)

Under a Trust Deed approved by HMRC dated 28 May 2012 as amended, the Society has covenanted to accept the ultimate responsibility for the funding of Wesleyan Staff Pension Scheme

The Society has absolutely, irrevocably and unconditionally agreed to provide sufficient capital resources to Wesleyan Unit Trust Managers Limited, Wesleyan Financial Services Limited, Wesleyan Administration Services Limited and Wesleyan SIPP Trustees Limited to enable them to meet their individual liabilities in order to protect and enhance its investments in these subsidiary companies

23. General Business

The Society has retained the risk in respect of any industrial disease claims arising on the book of general insurance policies sold to General Accident (now part of Aviva plc) in 1995 To date claims received have been negligible and management consider the possibility of future claims to be remote

In order to comply with the EC Directive 2002/13 and PRA GENPRU 2 1 30 the Society holds capital of £2 8m (2012 £2 8m) to meet a base capital resources requirement of euros 2 775m (2012 euros 2 775m) in a separately designated interest bearing account

24. Pension Schemes

The Society operates a defined benefit pension scheme – Wesleyan Staff Pension Scheme ("the Scheme"), which since 1 October 2009 has been closed to new entrants with new members of the Society from 1 October 2009 eligible to join the Society's defined contribution scheme The Scheme is fully funded with the assets of the scheme held in a separate fund administered by the Corporate Trustee

The most recent valuation of the Scheme was as at 31 December 2012 The valuation used the projected unit method and was carried out by a qualified Actuary employed by Aon Hewitt

Reconciliation of accounting basis to balance sheet

	Value at 31 December 2013 (£m)	Value at 31 December 2012 (£m)	Value at 31 December 2011 (£m)
Total market value of assets	**421 4**	400 2	373 2
Present value of Scheme liabilities	**(389 8)**	(340 7)	(321 4)
Present value of unfunded liabilities	**(4 4)**	(2 9)	(2 9)
Surplus in Scheme	**27 2**	56 6	48 9
Related deferred tax liability	**(1 9)**	(3 2)	(3 5)
Net pension asset recognised on balance sheet	**25 3**	53 4	45 4

Analysis of surplus

	Year ending 31 December 2013 (£m)	Year ending 31 December 2012 (£m)
Surplus in Scheme at beginning of year	**56 6**	48 9
Current service cost	**(5 7)**	(5 1)
Past service cost	**–**	–
Contributions	**13 7**	8 0
Other finance income	**0 3**	(0 7)
Actuarial (loss)/gain recognised in profit and loss	**(37 7)**	5 5
Surplus in Scheme at end of year (gross)	**27.2**	56 6

Analysis of profit and loss charge

	Year ending 31 December 2013 (£m)	Year ending 31 December 2012 (£m)
Current service cost	**(5 7)**	(5 1)
Past service cost	**–**	–
Recognised in Note 8	**(5 7)**	(5 1)
Interest cost	**(15 4)**	(15 5)
Expected return on assets	**15 7**	14 8
Finance income recognised in Note 4	**0 3**	(0 7)
Total expense recognised in profit and loss	**(5 4)**	(5 8)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

24. Pension Schemes continued

Changes to the present value of the defined benefit obligation during the year

	Year ending 31 December 2013 (£m)	Year ending 31 December 2012 (£m)
Opening defined benefit obligation	343 6	324.3
Current service cost	5 7	5 1
Interest cost	15 4	15 5
Contributions by participants	2 0	2 0
Actuarial losses on liabilities*	38 1	7 5
Net benefits paid out	(10 6)	(10 8)
Past service cost	-	-
Closing defined benefit obligation	394.2	343 6

* Includes changes to the actuarial assumptions

Changes to the fair value of Scheme assets during the year

	Year ending 31 December 2013 (£m)	Year ending 31 December 2012 (£m)
Opening fair value of assets	400 2	373 2
Expected return on assets	15 7	14 8
Actuarial gains on assets	0 4	13 0
Contributions by the employer	7 5	6 4
Additional contributions by the employer	6.2	1 6
Contributions by participants	2 0	2 0
Net benefits paid out	(10 6)	(10 8)
Closing fair value of assets	421 4	400 2

Actual return on assets

	Year ending 31 December 2013 (£m)	Year ending 31 December 2012 (£m)
Expected return on assets	15 7	14 8
Actuarial gains on assets	0 4	13 0
Actual return on assets	16 1	27 8

History of asset values, defined benefit obligations, surpluses and experience gains and losses

	Year ending 31 December 2013 (£m)	Year ending 31 December 2012 (£m)	Year ending 31 December 2011 (£m)	Year ending 31 December 2010 (£m)	Year ending 31 December 2009 (£m)
Fair value of assets	**421 4**	400 2	373 2	338 1	294
Defined benefit obligation	**(394 2)**	(343 6)	(324 3)	(284 0)	(284 9)
Surplus	**27 2**	56 6	48 9	54 1	9 1

	Year ending 31 December 2013 (£m)	Year ending 31 December 2012 (£m)	Year ending 31 December 2011 (£m)	Year ending 31 December 2010 (£m)	Year ending 31 December 2009 (£m)
Experience gains/(losses) on assets	**0 4**	13 0	19 1	14 5	26 8
Experience gains/(losses) on liabilities*	**(19 8)**	2 5	(3 3)	14 2	5 6

* This item consists of gains/ (losses) in respect of liability experience only – and excludes any change in liabilities in respect of changes to the actuarial assumptions used

The main assumptions used by the independent qualified actuary to calculate the liabilities under FRS 17 are set out below

	31 December 2013 (% p a)	31 December 2012 (% p a)	31 December 2011 (% p a)
RPI Inflation	**3 65**	3 25	3 35
CPI Inflation	**2 65**	2 55	2 35
Rate of general long-term increase in salaries	**4 15**	4 25	4.35
Pension increases	**3.30**	3 00	3 20
Discount rate for Scheme liabilities	**4 40**	4 50	4 80

Expected return on assets

	Long-term rate of return expected at 31 December 2013 (% p a)*	**Value at 31 December 2013 (£m)**	Long term rate of return expected at 31 December 2012 (% p a)*	Value at 31 December 2012 (£m)	Long-term rate of return expected at 31 December 2011 (% p a)*	Value at 31 December 2011 (£m)
Equities		**28 3**		110 1		96 9
Property		**4 1**		5 0		4 9
Government bonds		**232 3**		168 8		151 0
Corporate Bonds		**152 4**		104 7		93 5
Other		**4 3**		11 6		26 9
Combined	**3 70#**	**421 4**	4 00#	400 2	4 05#	373 2

* The expected return on assets by asset category is not a required FRS 17 (Amended December 2006) disclosure item (only the total rate needs to be disclosed)

The overall expected rate of return on scheme assets is a weighted average of the individual expected rates of return on each asset class.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013 CONTINUED

24. Pension Schemes continued

The mortality assumptions used for FRS 17 purposes were as follows

Pre-retirement mortality

- 31 December 2013 – 75% for males and 85% for females of the standard AMC/AFC00 tables
- 31 December 2012 – 70% of standard AMC/AFC00 tables

Post-retirement mortality

- 31 December 2013 – S1PMA/PFA 'year of birth', with best estimate individual scaling factors, and with the CMI 2012 mortality projections, allowing for long-term longevity improvement rate of 1 5% per annum for males and 1 25% per annum for females
- 31 December 2012 – S1PMA/S1PFA "year of birth" tables, with individual scaling factors, and with the CMI 2011 mortality projections, allowing for long-term longevity improvement rate of 1 5% per annum for males and 1 25% per annum for females

The future life expectancies at age 65 implied by these assumptions are as follows

	2013 (Years)	2012 (Years)
Male current pensioner	**23**	23
Female current pensioner	**25**	25
Male future pensioner (member currently aged 40)	**26**	26
Female future pensioner (member currently aged 40)	**26**	27

Approximate impact on balance sheet and profit and loss charge for the coming year of changing the key assumptions

		Approximate effect on estimated profit and loss for year ending 31 December 2014 (£m)				Approximate effect on balance sheet at 31 December 2013 (£m)		
		Service cost	Interest on liabilities	Expected return on assets	Total pension cost	Assets (excluding any restriction)	Liabilities	Surplus
Current figures		**8 0**	**17 3**	**(15 2)**	**10 1**	421 4	(394 2)	27 2
Following a 0 25% p a decrease in the discount rate[1]	New value	**8 5**	**17 1**	**(15 2)**	**10 4**	421 4	(413 2)	8 2
Following a 0 25% p a increase in the RPI inflation assumption[2]	New value	**8 4**	**18 0**	**(15.2)**	**11 2**	421 4	(410 4)	11 0
Following a one year increase in life expectancy[3]	New value	**8 3**	**17 9**	**(15 2)**	**11 0**	421 4	(406 7)	14 7

Notes

1 Assuming a 0 25% p a decrease in the yields on all government bonds and corporate bonds, but no effect on the asset value or assumption for the expected return on assets

2 Assuming a 0 25% p a increase in the yields on all index-linked government and corporate bonds, but no effect on the asset value or assumption for the expected return on assets

3 Calculated assuming flat adjustments to all current and future mortality rates (rather than an adjustment to the rate of longevity improvements)

25. Membership of the Society

In order to be a member of the Society, a person must be a policyholder of a qualifying policy of insurance or have made additional voluntary contributions after 1 May 2006 under the Wesleyan Assurance Society Group AVC policy

A qualifying policy is any subsisting policy issued in the ordinary life department, any policy issued after 28 April 1998 or any policy issued prior to 29 April 1998 where, on or after this date, premiums payable are increased by £25 per month or more, or additional benefits are allocated as a result of an additional single premium (other than a single premium received from the Contributions Agency) These are basic requirements of membership but they do not necessarily confer membership as there are various exceptions included in the Rules of the Society Holders of Industrial Assurance policies are not members of the Society Holders of policies which have been transferred to the Society under Schedule 2C of the Insurance Companies Act 1982 are also not members For policies issued from 28 April 2000, a qualifying policy requires to have been in force for two years before membership is conferred unless the new policy was issued within a period of not more than one month after the date of cessation of another qualifying policy

Any policy issued by the Society to the Trustees in respect of annuity business effected within the Society by the Trustees of an occupational pension scheme to secure all or part of the accrued rights of 100 or more members of that scheme in a single transaction shall not confer any rights of membership in the Society nor shall any policy issued subsequently by the Society to the individual members of that scheme under that arrangement

Any person who is an employee of the Society or of one of its wholly-owned subsidiary companies and makes additional voluntary contributions after 1 May 2006 for pension entitlements under the Wesleyan Assurance Society Group AVC Policy shall forthwith be a member of the Society, even though no qualifying policy is issued direct to such person and the trustees of such scheme shall not be a member of the Society

Members are not liable for any debts or sums of money due or to become due by the Society, apart from policy premiums and/or as separately contracted

26. Related Party Transactions

The Directors of the Society and its subsidiaries are related parties of the Society Total premium income received from Directors for the year ended 31 December 2013 was £74,740 (2012 £333,445) No claims were paid (2012 £14,950) All such transactions are on terms which are no better than those available to all employees of the Group

Banks are obliged by law to observe a strict duty of confidentiality to their customers and the Directors of Wesleyan Bank Limited do not consider it appropriate to make disclosures relating to balances and transactions with Directors All such transactions and balances arise in the normal course of business and on terms which are available to all staff of the Group

Wesleyan Staff Pension Scheme is also a related party Three Directors (Messrs Jackson, Bridge and Errington) were Directors of the Corporate Trustee throughout the year, as was the Chief Actuary, Tim Pindar

All Executive Directors (excluding Rob Green and Liz McKenzie) are members and thus are potential beneficiaries of the Scheme The Scheme's assets are administered by the Society and no charge is made for this service

Included within the balance sheet of Wesleyan Unit Trust Managers Limited (a wholly owned subsidiary of the Society) are investments held in the Group's three unit trusts as follows

	% of fund	Value £m
Cash Fund	73 0	2 7
Growth Trust	0 5	0 4
International Trust	0 6	0 1

The remaining investments in these three unit trusts are not consolidated in the Group's results, being ring-fenced funds owned by independent unitholders

Full disclosure of transactions and balances with subsidiaries of the Society, which are eliminated on consolidation, are not made in these financial statements Classification of such transactions and balances in other notes to these financial statements are disclosed as appropriate

GLOSSARY

Acquisition Expenses Expenses related to the procurement and processing of new business written, including share of overheads

Admissible Assets The assets that can be included on a regulatory balance sheet of a life insurance company under UK regulation

Annual Bonus Bonuses which are added each year to conventional with profits policies to increase the guaranteed amount payable

Annuity Policy· An insurance policy that provides a regular income in exchange for a lump sum payment

Annual Premium Equivalent (APE) Used as a measure of manufactured new business volumes It is calculated by adding total premiums to be received per year for regular premium policies and 10% of single premiums received in the year

Asset Shares Asset shares reflect the amount of money paid into with profits policies by way of premiums and investment returns, less the costs of administering those policies

Assets Under Management Total assets actively managed or administered by, or on behalf of the Group

Association of British Insurers (ABI) The ABI represents the collective interests of the UK's insurance industry

Association of Financial Mutuals (AFM) The trade body that represents mutual insurers, Friendly Societies and other financial mutuals in the UK It was formed in January 2010 after a merger of the Association of Friendly Societies and the Association of Mutual Insurers

Available Capital Resources The excess of admissible assets over liabilities

Best Estimate Liabilities The expected value in today's money of all future cash flows in respect of in force business

Closed Fund A fund that has stopped taking on new business

Defined Benefit Scheme A type of occupational pension scheme, where the benefits are based on the employee's salary and service

Defined Contribution Scheme A scheme which determines the individual member's benefits by reference to contributions paid into the scheme in respect of that member, usually increased by an amount based on the investment return on those contributions

Derivatives Financial instruments, the prices of which are directly dependent upon the value of one or more underlying securities They are often used to hedge risk or to exchange a floating rate of return for a fixed rate of return See also Option and Swaption

Equity Backing Ratio (EBR) The percentage of the fund invested in equities and property

Estate The amount by which the assets (including PVFP) of the Society exceed the asset shares and other anticipated liabilities of the current in-force policies, and represents a measure of financial strength See also RBS

Fair Value The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction

Final Bonus A bonus that is added to a policy when it becomes a claim Final bonus rates are not guaranteed The aim in setting final bonus rates is that policyholders should receive their policies' fair share of the fund This is assessed using either asset shares or a shadow fund

Financial Conduct Authority (FCA) An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interest of all users of, and participants in, the UK financial sector

FTSE FTSE is an independent company that provides indices to measure how stock markets and other financial markets perform In the UK, the FTSE 100 index is widely used by the media to report on the valuation of the largest 100 quoted companies on the UK stock exchange

Fund for Future Appropriations (FFA) The excess of assets over the aggregate of policy and other liabilities It is the Society's capital Transfers to and from the FFA reflect the excess or deficiency of income over claims, expenses, tax and changes in the technical provisions

Guarantee The minimum level of benefit which the insurer will pay if the insured event occurs on a guaranteed date

Guaranteed Annuity Rate (GAR) A guaranteed minimum rate at which a retirement fund built up under a pension policy is converted to an annuity

Income Protection (IP) Insurance covering loss of up to 75% of income due to illness or injury Generally payment is in the form of regular income payments, after a waiting period, while the member remains unable to work Payments may continue until the end of the policy term or cease after a set period (See PH10)

Individual Capital Assessment (ICA) An assessment of the capital required by the Group, reported privately to the PRA It is broadly equivalent to the capital needed to cover the Group's actual portfolio of risks at a 'one in two hundred year event' risk level, having regard for the Group's own risk control.

Individual Savings Account (ISA) A tax free investment contract, allowing investment into cash and stocks and shares

Industrial Business (IB) Life assurance business sold under the Industrial Assurance Acts 1923 to 1958 under which the premiums were originally contracted to be collected door to door

In Force Policy Long-term business written before the period end which has not terminated before the period end

Maintenance Expenses Expenses relating to the servicing of the in force book of business (including investment management and termination expenses and a share of overheads)

Merger Scheme A Court-approved Scheme, which sets out how the merger of Wesleyan with Medical Sickness Society on 1 July 1997 should take place, and how the Open Fund and the MSS Fund should be managed thereafter

MSS Fund (MSSF) A closed fund set up under the terms of the Merger Scheme It contains all the with profit policies of Medical Sickness Society in-force on that date and is maintained as a separate account within the Wesleyan's Long-Term Business Fund

Mutual A business that is owned by its members rather than by shareholders

MVR/MVA Market value reduction / Market value adjustment A with profits unit value reduction on payment of a claim in circumstances where the policy's fair share of the fund is below the value of the units (and a guarantee does not apply)

Non Profit Pool. A subset of the assets of the Open Fund, chosen to match the nature and term of the non-profit liabilities as closely as reasonably practicable

OILTBF The Ordinary and Industrial Long-Term Business Fund

Open Fund The Wesleyan Long Term Business Fund excluding the MSS Fund

Option A put (call) option is a derivative that gives an investor the right, but not the obligation, to sell (buy) an asset class on a specified future date for a specified price A policy guarantee represents a put option on the asset share

Paid-Up This is the cancellation of premiums for a life assurance policy during the policy term where, instead of the policyholder applying for the cash value, he/she elects to leave premiums paid to date as a paid up policy which will give reduced benefits at maturity

Participating/With Profits Contracts A policy where, in addition to guaranteed benefits specified in the policy, additional bonuses may be payable from relevant surplus The declaration of such bonuses (usually annually) reflects, among other things, the overall performance of the fund of which the policy forms part of

Payout Ratio Represents the with profits claim amount divided by the asset share, where the claim amount equals the sum assured plus annual bonuses plus final bonus This checks that a fair value is being paid to claiming policies It is also an indicator of smoothing More details are provided in the PPFM

PHI Permanent Health Insurance is an insurance policy paying benefits to policyholders who are incapacitated and hence unable to work due to illness or accident. (See Income Protection)

Premium The term used for the investment made by the policyholder into a policy Premiums can be one-off (single premium), contractually to be made, usually every month (regular premiums), or expected to be regular but on a non-contractual basis (recurrent single premium)

Principles and Practices of Financial Management (PPFM) A document explaining how we manage our With Profits Fund

Prudential Regulation Authority (PRA) Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation

PVFP/PVIF Present value of future profits/Present value of in force For non-profit business PVFP forms part of the with profits assets in the RBS

RBS Realistic Balance Sheet This solvency measure is the with profits assets less with profits liabilities = Estate (Working Capital) Both assets and liabilities are determined on a best estimate basis The liabilities include asset shares, cost of guarantees and GARs

Regular Premium A series of payments for an insurance contract, typically monthly or annually

Regulatory Valuation Alternative valuation of liabilities to RBS, using mathematical reserves Key differences from RBS are that assumptions used are prudent rather than best estimate and only contractual benefits are included in the liabilities i e there is no allowance for final bonus

GLOSSARY
CONTINUED

Retail Distribution Review (RDR) A fundamental review by the FCA designed to help address insufficient trust and confidence in financial services products and services In particular it is intended to drive increased professionalism in the tied and independent advice areas and will challenge the way that financial advice is organised and paid for

Risk Appetite The amount of risk that a business is prepared to accept or keep when carrying out its everyday activities

Risk Capital Margin (RCM) The additional capital a firm would need to hold to cover the effects of a number of 'What if?' scenarios that have been prescribed by the FCA These scenarios assess the capital implications from combined movements in financial markets (equity, property, credit spreads, and interest rates) and persistency of the business The RCM is the capital required to cover the worst case scenario

Shadow Fund A measure used as a guide to a unitised with profits policy's fair share of the fund Every transaction buys or sells shadow fund units For an individual policy the value of the shadow fund holding allows for the smoothed, full investment return earned by that policy The investment return is also adjusted for profits or losses from other sources

Single Premium A single payment for an insurance contract

Smoothing Smoothing is an important and fundamental aspect of with profits policies, allowing policyholders to benefit from investment in the stock market, but with the short-term highs and lows evened out

Solvency II An EU-wide project that sets out to provide a comprehensive new framework for insurance supervision and regulation This aims to strengthen protection for policyholders by ensuring that companies allocate enough capital to cover all the risks in their business

Sum Assured The guaranteed amount at the start of a conventional with profits policy

Surrender A policy claim other than on death or at maturity For a pension policy surrender is often called a transfer, as the claim value is usually transferred to another pension provider

Swaption A receiver (payer) swaption is a derivative that gives the right, but not the obligation, to receive fixed (variable) interest payments on a notional lump sum in return for paying variable (fixed) interest rate payments on the same notional lump sum

TCF Treating Customers Fairly is an industry-wide initiative designed to ensure financial providers meet basic principles of product information, suitability and performance

UK Corporate Governance Code This Code sets out the standards of good practice for listed companies It covers, amongst other things, the Board composition and its accountability and relations with business owners Mutual organisations do not have to adhere to the Code, but we choose to comply with the Annotated Code as published by the AFM as we believe it is good business practice to do so

UK GAAP Generally Accepted Accounting Principles adopted within the UK and within the accounts

Unit-Linked Policy A policy where the benefits are determined by the investment performance of the underlying assets in the Unit-Linked Fund

Unitised With Profits Policy A policy for which the premiums buy units in a With Profits Fund

Unit Trusts A collective investment which invests in a range of assets It may by a general fund or specialise in a particular type of asset or in a particular geographical area

With Profits Bond A unitised with profits whole of life policy (e g Capital Investment Bond) or conventional with profits fixed term policy (e g five-year term Guaranteed Growth Bond) sold on a single premium basis The aim of the policy is usually to provide an investment opportunity and, in some cases, a regular income each year

With Profits Fund An investment fund where we combine all of our with profits investors' money and manage it on their behalf The fund normally invests in UK and overseas shares, fixed interest securities including Government stocks and bonds, property, cash and our own business activities We regularly monitor where we invest the fund to take account of future liabilities

Working Capital The excess of assets over liabilities as measured by the PRA's realistic reporting approach

WSPS Wesleyan Staff Pension Scheme

Designed by **Radley Yeldar** (www ry com)
using the paperless proofing system Wizard**ry**