Companies House

20145

170 years of expert financial advice

Insight | Performance | Trust

Report and Accounts 2011

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COMPANIES HOUSE

Introduction

Our vision, mission and values

In this report...

IMAGE REMOVED

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

Our vision
To be the best in our chosen markets

Our mission
Through continuous improvement

- To be a strong and profitable business that provides tailored financial products and services to meet the personal, professional and business needs of our target markets
- To be the provider of choice for customers and the employer of choice for staff

Our values
Insight
Understanding our customers' needs in order to offer tailored product solutions, specialist advice and customer care

Performance
Founded on an enviable record for excellent financial performance, industry leading financial strength, superior returns for our customers and a commitment to continuous improvement in all aspects of our operations

Trust
Aiming to earn our customers' trust through financial security as well as a commitment to doing the right thing, true to our mutual heritage This means being principled, caring, honest and fair In a word, integrity

Wesleyan – the provider to professionals

We understand that our customers have unique career paths with different financial needs at each stage Each of our Financial Consultants deals with a single profession and receives ongoing training to keep fully up-to-date with the changing issues our customers face This ensures that our specialist advice is always tailored to our customers particular circumstances

What we offer

Income Protection and Life Assurance

Savings and Investments

Retirement and Inheritance Tax Planning

Mortgages Residential and Commercial

Practice Protection

Commercial Lending

Personal Loans and Insurance

IMAGE REMOVED

IMAGE REMOVED

Doctors

"I have always been impressed and delighted with the service I receive from Wesleyan Medical Sickness When the pension choices exercise was announced I spoke to a number of well known companies to get advice on what to do My Financial Consultant at Wesleyan Medical Sickness was the only one who gave me honest advice about what would be the best approach for my retirement needs" **Dr J Hinton, Harrow**

Dentists

"I have been a client for over 25 years and have been extremely happy with the advice offered to both myself and my family"

Mr S Cowley, Birmingham

IMAGE REMOVED

IMAGE REMOVED

Teachers

"Wesleyan for Teachers provided a very professional and informative service for us on our staff wellbeing day The presentation was very well attended and I received very positive feedback from everyone who attended, even those who thought they knew everything about teachers' pensions and retirement I cannot recommend them highly enough, a fantastic service and a big thank you from everyone at Oathall Community College"

Sam West, SEAL co-ordinator, Oathall Community College

Lawyers

"It's impossible for firms like ours to provide benefits that meet the exact needs of every individual staff member However, with the help of Wesleyan for Lawyers, we can show employees how the available benefits fit into the context of their own personal circumstances"

Ian Forrest, Partner at Squire Sanders & Dempsey

Society and Financial Highlights

33.4%

Payouts on the Society's 25 year endowment policies are 33 4% higher than the average of those of our competitors

Based on Society research

72,895

Policyholders were given a £100 voucher as part of the Society's Mutual Rewards Scheme

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 seven consecutive years

Cazalet Consulting With Profits survey November 2011

20.7%

Growth in new business Annual Premium Equivalent (APE) figures

+16

Likelihood to recommend Wesleyan is 25 points above the industry average of -9

The Association of British Insurers – Customer Impact Survey 2011/12

£50,000

Raised for our chosen charity CLIC Sargent during 2011

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Craig Errington named Overall Director of the Year at the Institute of Directors UK Final

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Our Customer Relationship Centre was named Customer Service Team of the Year at the British Excellence in Sales & Marketing Awards

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Wesleyan won the Birmingham Post Business Award for Professional Services

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Wesleyan named Insurer of the Year at the Campden Media GP Awards

Financial Summary of 2011

	31 December	
Society New Business (APE)[1]	2011	2010
Total	**£42.5m**	£35 2m
Society Premium Income – Gross		
Total	**£333m**	£268m
Investment Returns		
With Profits Fund	**-0.3%**	13 7%
Life Managed Fund	**-2.8%**	14 6%
Pensions Managed Fund	**-0.5%**	13 7%
Fund Size		
Total Assets	**£4.8bn**	£4 6bn
Long-Term Fund (net)	**£2.9bn**	£2 7bn
Investment Mix – With Profits Policyholders		
Equity Shares	**60%**	65%
Property	**9%**	10%
Fixed Interest	**13%**	9%
Cash & Other	**18%**	16%
With Profits Realistic Balance Sheet		
Assets	**£2,524m**	£2,449m
Liabilities	**£2,027m**	£1,922m
Working Capital	**£497m**	£527m

[1] The above is stated in terms of Annual Premium Equivalent (APE), being twelve months premium for regular business plus 10% of single premiums

Chairman's Statement

"The Society's commitment to serving the financial needs of all our customers, at all stages of their careers and in retirement"

2011 saw the Society celebrate its 170th anniversary From early beginnings in a small room in a side street in Birmingham, we now have over 1,000 staff looking after professional groups around the United Kingdom

The Board is clear that the Society remains committed to serving the financial needs of all our customers, at all stages of their careers and in retirement

Background
The Society's 2011 Business Plan was set against a background of continued economic uncertainty, a scenario that has not changed and now seems likely to continue for some years to come Our markets are not immune from the impact of spending cuts, inflation, tax increases and legislative changes but the Board share the Executive team's belief that despite this weak financial background there is still plenty of opportunity to strengthen the Society's presence in the professional markets we serve and to increase market share

Performance
The Chief Executive's Review and the Business Review later in the report provide greater detail and analysis of the Society's 2011 performance It was pleasing however that the 2011 new business sales objectives were achieved This was against the background of customers' understandable caution to enter into new financial commitments and the need for the sales force to devote time 'off the road' to prepare for the requirements of the Financial Services Authority's (FSA) Retail Distribution Review (RDR), which comes into effect from 31 December 2012

Strategy
The Board has regularly reviewed the Society's strategy and the risks to it, with a full session held in June attended by the wider management team Whilst acknowledging the challenging economic background the Board reaffirmed the current strategy sharing management's confidence that steady, controlled growth can be achieved

Mutuality
As the Society's Chairman, I reiterate the Society's commitment to its mutual status – 2011 is no exception to this with the latest strategy session clearly reaffirming this position However as I stated in my report last year, ultimately the purpose of mutuals is to give value back to the members and the demonstration of this is part of the Society's strategy

Risk Management
In 2011 the Society has made further progress to codify and document its risk appetite and risk management processes and it was very pleasing to receive acknowledgement of our progress from the FSA who carried out a review towards the end of the year Through the Society's Risk Committee, the quality of risk-related information that the Board receives on a regular basis is of a very high standard

The Board
I commented in last year's report that we intended to appoint one additional Non-Executive Director in 2011 and we were delighted to welcome Martin Bryant to the Board in June Martin's experience of strategy and customer relationships is of great value to the Board

IMAGE
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We were also pleased to welcome Samantha Porter who joined the Board as Marketing Director in September 2011, the first female member in the Society's 170 year history Samantha has held a number of roles within the Society and brings with her over twenty years of experience within financial services

Martin Howard and Matthew Rodhouse left the Board during the year to pursue other interests and went with our best wishes and gratitude for their individual contributions Most recently Rob Green has joined the Society as Finance Director Rob has significant expertise in the financial services sector and we look forward to the addition of his knowledge and insight as we move forward with the delivery of the regulatory RDR and Solvency II initiatives, in addition to the pursuit of our commercial objectives

Governance
At Board level we believe we have the degree of independence and range of skills to challenge the Executive team and exercise the level of scrutiny essential to ensure the security of the Society's future and to ensure that policyholders' expectations are fulfilled In 2012 we will be conducting a further Board evaluation process to build on the 2010 exercise and the actions taken subsequently

Other areas of valuable governance over the Society's affairs are also worthy of note -

(i) the independent members who serve on the Society's two With Profits Committees,

(ii) the Wesleyan Medical Sickness Advisory Board, comprising eleven doctors and dentists, who meet three times a year to work with management to ensure the sales and marketing practices are appropriate and sensitive to those target markets,

(iii) the Lawyers Advisory Board, comprising six lawyers, who fulfil the same function for our growing presence in this market, and

(iv) the regular meetings held with NASUWT (National Association of Schoolmasters Union of Women Teachers) one of the largest teachers' unions in the UK with over 280,000 members and for whom the Society is the recommended provider of financial advice

Looking Ahead
2012 will no doubt prove challenging but the Society remains a financially strong business with ambitious plans to grow in a steady and controlled manner in the years ahead

The Board were delighted with Craig Errington's Institute of Directors 2011 award of 'Director of the Year' and he would be the first to recognise that this could not have been achieved without the loyalty and hard work of everyone in the business

On behalf of the Board, I would like to thank all the staff for their continued commitment to quality and service and their resilience in a time of great change

Bryan Jackson CBE Chairman
22 March 2012

Chief Executive's Review

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Introduction

The Society's vision, mission and values are detailed at the front of this report and are the foundation of our aims to strengthen our presence and increase our offering in our target markets of doctors, dentists, teachers and lawyers

My review this year focuses on our long term high level objectives with more detail on the wider operational performance provided in the Business Review 2011

Taking each of the three objectives in turn -

A Financially Strong Business

Financial Strength

The Society's financial strength continues to be of fundamental importance to achieving our long term strategic objectives It also benefits our policyholders, as it allows us to deliver long term returns via an investment strategy based on continuing high equity exposure The market risks inherent in this strategy are carefully managed and in 2011 we remained financially strong New European solvency capital rules are being introduced over the next few years, and our preparations to meet these rules and understand the implications for our strategy are well on course

Sales Performance

2011 was another good year for the sales force, building on strong growth in 2010 and 2009, with income significantly up across all our markets – doctors, dentists, teachers and lawyers, as we continued to embed our proposition with both our existing and new customers As mentioned by the Chairman in his Statement this was achieved while continuing the preparation of our salesforce for operating in a post Retail Distribution Review (RDR) world from January 2013

Achievements

It was very pleasing to be rated 10/10 in the latest Cazalet Consulting review of with profits offices, making the Society the only life office to achieve this recognition seven years in a row Cazalet's ratings are based on an in-depth analysis of the Society's With Profits Fund analysing investment philosophy and performance, asset shares and policy values, new business volumes, management of capital, business risks and cash flows We see this assessment as a clear endorsement of what the Society is seeking to achieve

Further achievements are highlighted in the Business Review

Customer Proposition – Provider of Choice

Sales Force

Our focus remains to grow new business in our existing markets, this includes increasing the number of financial consultants we employ, in particular in the Lawyers market In 2011, we also launched our Sales Relationship Centre (SRC) which provides support to both financial consultants and customers We have taken a phased approach to this programme and plan to offer full support to all our consultants by the end of 2012

We have already put in place the basic infrastructure required to maximise opportunities from the introduction of the FSA's RDR in January 2013 This will bring a greater focus on the quality of service provided by our financial consultants as well as transparency of charges in a comparable market

We expect all financial consultants to be qualified to advise and sell under RDR regulations ready for the launch of our new RDR compliant pricing proposition in Q4 2012

We aim to achieve increased activity levels through the use of our industry leading Point of Sale system

We have set ambitious new business growth targets by increasing the number of first appointments through a more experienced salesforce, the expansion of the SRC and having a quality range of products offering market leading returns

Products
An enhanced investment service was launched in January 2012 giving customers a greater choice of investments reflective of their attitude to risk supported by a full advice service

We will improve and enhance our financial modelling to provide information on total sector penetration, product profitability and capital intensity

Customer Service
We plan to invest further in the Society's technology infrastructure starting with the preparatory stages of simplifying our policy administration systems and creating a new strategic platform

General Insurance
We launched our Private Clients Insurance Service in 2010 and this is continuing to progress and achieve year on year growth We plan to increase income in this area as well as achieving increased penetration and improved customer retention

We plan to make our first move into the professional indemnity insurance space with a broking proposition for the lawyers market

Wesleyan Bank
We plan to grow personal loans through increased segment penetration and to grow the commercial loan business as a result of expanding the commercial loan team in Birmingham and exploring opportunities in the medical markets

Employer of Choice

In recognition of the Society's commitment to be the employer of choice for all staff we plan to

- continue working with teams across the Society to address particular issues coming out of our annual employee opinion survey It is very pleasing to report that for the third year in succession staff engagement as measured in the survey continues to exceed the industry benchmark, and
- further embed staff development programmes including the continuous improvement programme and the Total Development Framework which was launched to Head Office staff in 2011 During 2012 we will review the remuneration, career progression and development mechanisms for the sales force to optimise our implementation of RDR

The Society is an expanding organisation, in both Head Office and the sales force, at a time when many organisations are seeking to downsize their employee numbers The launch of the SRC created 90 new jobs in our Head Office, with further expansion in the Lawyers segment increasing the size of the sales force

In addition to this, twelve apprentices joined the Society in October taking their first step towards a career in financial services They are on an 18 month programme and will work full time within Customer Services and General Insurance, while also working towards an NVQ Level 2 in Business Administration or Providing Financial Services

Earlier this year, we were pleased to offer permanent positions to each of the five apprentices who completed the pilot programme launched in 2010 This apprenticeship scheme has been developed with support from Birmingham Metropolitan College and the National Skills Academy for Financial Services (NSAFS)

As Chairman of the NSAFS Employer Board in the West Midlands I fully support the apprenticeship programme and hope to see it develop in future years

We will continue our Corporate Responsibility programme As a mutual, Wesleyan continually strives to be a good corporate citizen in our communities, marketplace and workplace During 2012 we will detail the actions already in place and give further consideration to how we can provide the most effective benefit in the future

Looking Ahead

2012 will be a challenging year as we have increased sales force targets and are looking for increased growth from the Bank and General Insurance businesses in addition to our Life & Pensions business While we support the growth initiatives, completion of the RDR and Solvency II Projects in 2012 will result in additional costs and significant demands on senior management

2012 will also see further impact as a result of external factors such as the EU Gender Directive and the pension changes which particularly affect our key markets More detail of the principal risks and uncertainties facing the Society, together with the actions taken to mitigate them, are set out on pages 12 to 13

2011 was another positive year for the Society and we look forward to 2012 with cautious optimism for another year of steady progress I would like to take this opportunity to thank all our staff for their hard work and continued support

Craig Errington Chief Executive
22 March 2012

"The Society offers appropriate tailored products to ensure that the personal, professional and business needs of its niche market customers are met."

The Society has a clearly defined business model, and how we achieve this is measured against a number of strategic objectives This review of performance in 2011 focuses on providing more detail on these objectives and our progress

Background
Through a nationwide segmented salesforce of 321 (2010 305) Financial Consultants (FCs) the Society advises on life assurance, investments, pensions and income protection insurance to doctors (split into GPs, hospital doctors and students), dentists, teachers and lawyers Other financial services offered include retail banking, unsecured lending, commercial lending and acting as a general insurance broker

The Society offers appropriate tailored products to ensure that the personal, professional and business needs of its niche market customers are met In terms of protection, investment and pensions business the Society manufactures over 91% (2010 88%) of the products it sells, the remainder is sourced from a panel of market providers

Our FCs, supported by Area Managers who report to a National Sales Manager for each segment, seek to deliver a unique proposition for protection and savings through the use of the Society's Point of Sale technology and knowledge of each specialist market Also as part of a commitment to providing holistic financial advice in the home or business premises they can also help each client with loan finance and general insurance needs

Investment Performance
A year which started with a degree of confidence that leading economies would continue their recovery from the credit crunch ended with many developed countries struggling to show any growth at all Meanwhile sovereign debt worries precipitated both a further worsening of the economic crises in the peripheral eurozone nations and the Standard and Poors downgrading of US Government debt

Continuing low interest rates, more quantitative easing from central banks and investors staging a "flight to quality" meant good quality Government bonds were the star performers, particularly in the second half of the year In the UK the FTSE All-Gilts index returned +15 6% while index-linked gilts moved to negative real yields Equities reacted to the worsening economic outlook and the FTSE All-Share Index returned -3 5% for the year despite a good improvement in company dividends The IPD All-Properties Index of commercial property returned 8 1%

The Wesleyan With Profits Fund has an above average exposure to equities, which has served us well over the long term In 2011 this held back our gross investment return which came in at -0 28% although, of course, we previously produced the industry's top with profits return in six of the years since 2000 Our unit-linked managed funds, for both life and pensions, extended their excellent track records with both finishing the year in the top decile of their respective league tables Total funds under management grew despite the market background, rising by £235m to a record £4,674m

New business growth within each core market
All of our chosen segments experienced Annual Premium Equivalent (APE) growth in 2011 and we have demonstrated continued growth over recent years

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New business growth
Our 2011 new business APE grew by 20 7% to £42 5m and we are delighted to record within these figures continued growth in the Society's with profits business which grew by 28 6% The seven year trend shown highlights positive progress since a major strategic review was implemented in 2005

General Insurance broking
2011 saw further progress as we significantly increased new sales across our range of products – home, motor, travel and commercial property insurance Our Private Clients Insurance Service was particularly successful supported by the introduction of a free walk through appraisal service for high value properties We also introduced a fleet car policy catering for households that have a number of vehicles and drivers to insure

Wesleyan Bank
Another successful year with our personal loan and savings products selling well, and our fixed rate bonds proving particularly popular 2011 saw further development of our commercial lending capability through our Wesleyan Key Business Finance Limited (WKBF) subsidiary with loan values in 2011 more than double those in 2010 WKBF and the Bank work very closely together with WKBF sourcing much of the business which is placed with the Bank We expect to see closer integration between the two companies during 2012

Available Capital Resources
Despite difficult market conditions, our financial strength was maintained and this allows us to provide our policyholders with a combination of financial security and excellent growth opportunities

To deliver above average long term payouts
With investors understandably concerned about the returns on their savings and investments it is very pleasing to report that the Society received 'top spot' for the best performing with profits bond over ten years (based on an investment of £10,000) The Society's bond grew to £16,805 after 10 years – an annual return of 5 3% The Society also received 'top spot' for returns over six, seven, eight and nine years
Source Money Management

To demonstrate how our long-term payouts compare with major competitors, we have analysed a 25-year Wesleyan Endowment Plan and its return and the Society has come out top and retained its position in the top two held over the last five years The example is based on a 30-year old male and contributions of £50 per month Past performance is not a guide to future performance

Companies	2012
Wesleyan	**£47,205**
LV=	£44,108
Prudential	£33,679*
Legal & General	£33,601*
Friends FLC (was AXA Sun Life ASL)	£32,681
Aviva Main Fund (ex CGNU)	£31,950
Friends Provident	£31,522
Standard Life	£28,439
Average payout	**£35,398**

*Mortgage endowment policy

Source Society's own research

IMAGE REMOVED

Craig Errington, Chief Executive with our 2011 apprentices

Our achievements

Director of the Year | Insurer of the Year | Professional Services | Best Customer Service Team | 10/10 Cazalet Consulting Award

2011

Life Insurer of the Year | 10/10 Cazalet Consulting Award

2010

Best Use of IT in Insurance | 10/10 Cazalet Consulting Award | Business of the Year

2009

Life Insurer of the Year | 10/10 Cazalet Consulting Award

2008

The Society's progress and achievements

The Society has won a number of prestigious awards and is regularly recognised by respected organisations for its achievements These are shown alongside

Wesleyan has again been awarded ten-out-of-ten by Cazalet Consulting With Profits Ratings and is the only life office to have achieved this in seven consecutive years

2011

Director of the Year – Large Business and Overall Director of the Year (Craig Errington) – Institute of Directors (IoD) Director of the Year Awards

Insurer of the Year – GP Practice Awards

Professional Services Legal, Finance and Business Award – Birmingham Post Business Awards

Best Customer Service Team – British Excellence in Sales & Marketing Awards

2010

Life Insurer of the Year – British Insurance Awards

2009

Best Use of IT in Insurance – Financial Sector Technology Awards

Business of the Year – National Business Awards Regional Finals

2008

Life Insurer of the Year – British Insurance Awards

"We trust our teams and look forward to the challenges ahead to ensure success for all our stakeholders, both members and employees"

Regulation

We remain mindful of the Government's announcement to break up the Financial Services Authority (FSA) and set up two new regulatory bodies The Prudential Regulation Authority (PRA), part of the Bank of England, will regulate the financial management and supervision of banks, building societies, credit unions and investment firms The Financial Conduct Authority (FCA) will regulate the conduct of business of all product providers in order to better protect consumers whilst also ensuring the regulation of retail and wholesale markets

It is envisaged that the Society will be regulated by both the PRA and FCA

We also remain mindful of continuing developments within the European regulatory authorities In this context the Society has invested significantly in regulatory projects, primarily the Europe-wide Solvency II capital requirements for insurers

Furthermore, we are continuing to work to ensure compliance with the FSA's Retail Distribution Review which requires the training of our Financial Consultants to pass higher level examinations as well as adopting a new charging structure in order to provide greater transparency for customers

Finally, earlier this year, further details were provided regarding the removal of gender based pricing within insurance from 21 December 2012

We believe we are well prepared to meet the requirements of these major initiatives whilst protecting the commercial strengths of the Society

Looking ahead

We remain committed to our core markets, which provide ample opportunity to continue to sell our products and services

2012 will continue to bring both opportunities and challenges for the Society The wider economic uncertainty and the possibility of entering a further recession remains a key risk which we will continually monitor and adapt our operating decisions accordingly

We have a belief in the ability of our staff to ensure our continued success In 2011, our staff engagement at 82% (measured in the Society's annual Employee Opinion survey) exceeded the industry benchmark and highlights the success of one of our core mission objectives, in being the 'employer of choice for staff'

We trust our teams and look forward to the challenges ahead to ensure success for all our stakeholders, both members and employees

Principal Risks and Uncertainties

Accepting risk is fundamental to the delivery of the Society's strategic objectives and 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 risks 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 39 to 46 The Board believes that the principal risks and uncertainties facing the Society and its subsidaries are as set out below, together with the actions taken to manage and mitigate them

Legislation and Regulation
Changes in regulation or legislation may have a detrimental effect on the Society's strategy, profitability or capital position

Principal risk and uncertainty	Risk mitigation and management
The Retail Distribution Review (RDR), the rules for which come into force at the end of 2012, will change the regulations for the provision of sales advice for retail investment products and the relationship between consultants and manufacturers of these products This will require significant changes to the Society's products and sales advice processes, particularly for investment and savings business Poor execution of these changes would impact the Society's customer proposition and profitability Other factors that could hinder successful transition include customers failing to understand the change, the Society's financial consultants not achieving the higher level qualifications required under RDR and increased demand for qualified consultants resulting in increased turnover of staff Overall we believe that the Society's distribution model is well placed to succeed in the post-RDR environment However, the scale of the changes required is significant and there is a risk that these will not be delivered to timescale	Significant activity has been undertaken during the year to implement the requirements of the RDR Our financial consultants have made excellent progress with the higher level qualifications and are on track to achieve the required level during 2012 Customer research has been undertaken to determine their preferred approach to adviser charging and we are engaging with the Financial Services Authority (FSA) to ensure that our approach meets regulatory requirements Significant changes to IT systems are required to support the changes to our savings and investment products This activity is underway and progress with this work and all other aspects of the project is closely monitored through project and executive steering committees
Solvency II, which is now scheduled for full implementation in 2014, will lead to a fundamental change in the way that insurance companies are required to calculate their regulatory capital and manage risk While the high level regulation is defined, detailed capital requirements and implementation rules have not been finalised Some uncertainty remains in proposed Solvency II regulation which could impact the amount of regulatory capital that the Society is required to hold The Society is developing an internal model to calculate its regulatory capital requirement under Solvency II If the Society fails to obtain regulatory approval for its internal model then its regulatory capital may not reflect appropriately the risks to which it is exposed, potentially creating some uncertainty in capital requirements	Significant progress has been made during the year with the development of our internal model and our risk management framework We are not expecting at this stage for Solvency II to require significant changes to our business model but the improved risk and capital management practices that Solvency II will bring will enable us to operate more efficiently Project progress is closely monitored through project and executive steering committees
In February 2011 the FSA published a consultation paper setting out proposals to amend existing rules on the operation of with-profits funds If they had been adopted as proposed, these rules would have had a significant impact on mutual firms that ceased to write material volumes of with profits business, potentially requiring the firm to distribute its excess capital and close to new business In March 2012, the FSA published its policy statement setting out their final rules following the consultation process Following feedback from respondents, the FSA did not proceed with the particular rule changes affecting mutual firms that cease to write material volumes of with profits business for the time being, although they intend to continue to discuss the issues raised with mutual firms and aim to publish another consultation paper in 2012/13 Whilst the rule changes previously proposed were not an immediate concern for the Society as it continues to write material (and increasing) volumes of with profits business, they are contrary to how the Society has operated in the past and could have an impact over the long term	We believe that with profits business subject to effective governance remains an attractive proposition for customers and that the rules previously proposed by the FSA were inconsistent with the Society's rules (which the Board are required to comply with) and how we have operated in the past We responded to the FSA's consultation paper as an individual firm and also provided input to the Association of Financial Mutuals and the Association of British Insurers to incorporate into their responses We also took legal advice on this issue and shared this with the FSA The position will continue to be monitored and we will actively engage with the FSA as they consider these issues further

Financial markets and economic conditions
The performance of investment markets and shifts in economic conditions affect the profits that we are able to generate for policyholders and our financial strength

Principal risk and uncertainty	Risk mitigation and management
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	Since 2009 we have achieved strong year on year new business growth and persistency has been stable despite a difficult economic environment Sales of savings and investment products have performed relatively more strongly than protection business in the current environment and we expect this to continue into 2012 However, as part of developing our 2012 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
Stock market volatility leads to investment losses in the With Profits Fund and impacts our financial strength	As far as possible 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 This means that we are more exposed to stock market volatility than other firms. 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 both in aggregate and by geography and counterparty We have also put in place a financial derivative to mitigate the impact of stock volatility on our financial strength

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

Principal risk and uncertainty	Risk mitigation and management
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 to the NHS and Teachers' Pension Schemes that are currently being consulted on will require an increase in employee contributions if they go ahead, 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 and 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

Counterparty failure
We are exposed to the risk of failure or default of one or more of our counterparties.

Principal risk and uncertainty	Risk mitigation and management
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 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 with 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

Note 2 on page 39 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 56 to 58 includes a sensitivity analysis setting out how changes in a range of risk factors may impact our capital

Board of Directors

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5 IMAGE REMOVED

6 IMAGE REMOVED

Non-Executive Directors

1 Bryan Jackson, CBE (b) (c) (d)
Chairman
Bryan Jackson, aged 65, became Chairman of the Society's Board immediately following the 2010 AGM, having been appointed a Non-Executive Director in May 2007 He was the Managing Director of Toyota Motor Manufacturing (UK) Limited until his retirement in 2004 Between 2004 and 2009 he was an adviser to Toyota in Europe He is also Chairman of East Midlands Development Agency and Deputy Chairman of Unipart Manufacturing Group, a first tier automotive supplier Bryan is also a member of the Audit and Risk Committee of the Department for Business, Innovation and Skills

2 David Rutter, BSc, FIA (a) (c) (e) (f)
Vice-Chairman and Chairman of the Risk Committee
David Rutter, aged 59, was appointed as a Non-Executive Director in 2004, having spent his entire career at the Society Prior to his retirement earlier in 2004, David was the Society's Appointed Actuary and later Finance Director David was a Director of the Society from 1990 and in 1997 he oversaw the merger with Medical Sickness Society David became Vice Chairman of the Society in May 2007 and joined the Board of Wesleyan Bank Limited in May 2010

3 Keith Nicholson, FCA (a) (f)
Deputy Chairman, Senior Independent Director and Chairman of the Audit Committee
Keith Nicholson, aged 62, 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 and a Non-Executive Director of The Equitable Life Assurance Society

4 Chris Brinsmead, BSc, MSc (b)
Chris Brinsmead, aged 52, 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 has strong business skills and a track record of delivering outstanding results in challenging and complex situations 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

5 Martin Bryant (a) (d) (f)
Martin Bryant, aged 59, joined the Society's Board on 1 June 2011 Martin spent 13 years working for The Boots Group in a number of positions including Group Director of Business Development where he was responsible for corporate strategy development and new business creation In 2007 he retired as Chief Executive at The Shareholder Executive, a unique cross governmental organisation providing corporate finance advice and shareholder management for 27 businesses with an asset base of £20 billion Prior to that, he was Strategy Director at the Home Office and worked as Chief Operating Officer of BP Retail

6 Philip Green (b) (d) (e)
Philip Green, aged 59, joined the Society's Board on 1 January 2010 He is Chief Executive Officer of the Life Insurance Market Research Association (LIMRA) Europe, the world's largest insurance association He is also Chairman of an international consultancy which focuses on developing performance, management, training and salesforce distribution Philip has extensive global experience working within the insurance sector having been Senior Vice President Marketing and Distribution at Alico and Executive Vice President, Chief Agency Officer for AIA, both part of the American International Group (AIG) of companies until 2005 He also worked for Sun Life of Canada for 18 years in a number of roles

Key to membership of principal Board Committees

(a) Audit	(d) Nominations
(b) Remuneration	(e) With Profits Committee(s)
(c) Investment	(f) Risk

Professional Advisers

Solicitors
Coley & Tilley,
Neville House,
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

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Executive Directors, Chief Actuary and Company Secretary

1 Craig Errington, CDir, FIoD (c) (d)
Chief Executive
Craig Errington, aged 48, joined the Society in 1991 as a Financial Consultant He received several promotions through the ranks of the Salesforce and in 2002 was appointed to the Board 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, Wesleyan Bank Limited and Wesleyan Key Business Finance Limited and the Medical and Lawyers Advisory Boards Craig is also a Director of the Association of Financial Mutuals, Regional Chairman of the National Skills Academy for Financial Services and Chairman of the Aston Reinvestment Trust

2 Clive Bridge, BSc, FCIPD, DipIoD
Chief Operating Officer – Manufacturing
Clive Bridge, aged 53, 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 – Manufacturing in September 2011 and has responsibility for Manufacturing Planning, Customer Services, Data Management and IT 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

3 Steve Deutsch, BEng, ACIB, CDir, FIoD
Chief Operating Officer – Sales
Steve Deutsch, aged 48, joined the Society in October 2005 following 19 years in a variety of roles at Lloyds TSB A member of the Society's Board since 2007, (he has previously been Operations Director and Commercial Director), Steve was appointed Chief Operating Officer – Sales in October 2011 In this role he has overall responsibility across the Group for the Salesforce, General Insurance, Wesleyan Bank Limited, Wesleyan Key Business Finance Limited, internet and direct sales Steve was appointed Managing Director of Wesleyan Financial Services Limited on 1 January 2011 and in addition is a Director of Wesleyan Bank Limited and Wesleyan Key Business Finance Limited

4 Rob Green, BA, ACA
Finance Director
Rob Green, aged 43, joined the Society's Board in February 2012 as Finance Director Prior to this he worked for Lloyds Banking Group and, from 2006 to 2010, Coventry Building Society where Rob was the Board 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 Finance Director at Wesleyan, Rob has overall responsibility for financial management, risk and compliance

5 Michael Lewis, MA, FIA (c)
Investment Director
Michael Lewis, aged 59, joined the Society as Investment Director in 1992 He is a mathematics graduate of Magdalen College, Oxford and qualified as an actuary in 1980 He is an industry veteran and began his career at NFU Mutual During his 19 years at the Society he has further developed a contracyclical and long term investment style, focusing new investment on asset classes, sectors and stocks that are currently out of favour with other investors The track record of the Society's Investment team has been excellent Michael is the Independent Investment Adviser to the Greater Gwent (Torfaen) Local Authority Pension Fund and also Chief Executive of Wesleyan Unit Trust Managers Limited

6 Samantha Porter, DipIoD
Marketing Director
Samantha Porter, aged 41, joined the Society in 1995 and was appointed to the Board on 29 September 2011 She has worked in financial services for more than 20 years and has held various senior roles during her time with the Society joining the Executive in January 2010 As a member of the Executive, Sam has responsibility for co-ordinating a number of strategic projects including the implementation of the Retail Distribution Review and the delivery of our Customer Proposition as well as the overall responsibility for Marketing Strategy and Operations, Product Strategy and Development, Corporate Communications and e Business

7 Tim Pindar, BA, FIA (c)
Chief Actuary
Tim Pindar, aged 51, 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 Tim has served on several actuarial working parties and co-authored a number of actuarial papers

8 Joe Roderick, FCA, ACII
Company Secretary
Joe Roderick, aged 60, qualified as a chartered accountant in 1975 and joined Medical Sickness Society in 1980 from Coopers & Lybrand (now PricewaterhouseCoopers LLP) He held the positions of Company Secretary and Financial Accountant with Medical Sickness and upon the merger of the two Societies in 1997 assumed these positions in the enlarged group In addition to company secretarial and statutory accounting roles, Joe is also responsible for taxation, staff pensions and corporate governance issues

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 Annotated Version of the new UK Corporate Governance Code ("the Annotated UK Corporate Governance Code") which applies in 2011

This report summarises the Society's governance arrangements and continued enhancements and, in accordance with the latest Annotated Code, explains 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 2010 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 2012 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 on the Society's regulatory returns to the FSA The Chief Actuary acts as the Reporting Actuary for the purposes of these Accounts

The Board and its Committees take advice from professional advisers to enable them to manage the risks and issues arising from the Society's affairs Each Director has 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 21 to 24 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 the Chairmanship of the East Midlands Development Agency and Deputy Chairman of Unipart Manufacturing Group

Executive Directors

The Board had five Executive Directors, including the Chief Executive, at 31 December 2011 During the second half of 2011 Martin Howard and Matthew Rodhouse resigned from the Board, Samantha Porter, Marketing Director, was appointed to the Board on 29 September 2011 and, with effect from 20 February 2012, Rob Green, Finance Director, was appointed to the Board

Non-Executive Directors

There are six Non-Executive Directors on the Board, including the Chairman, with Martin Bryant joining the Board on 1 June 2011

Their diverse experience, skills and independent perspective provide an effective review and challenge of the Society's activities The Annotated UK Corporate Governance Code defines best practice as an equal number of Executive and Non-Executive Directors, excluding the Chairman The Board believes that equal numbers including the Chairman are acceptable especially given that in the event of a tied vote the Chairman has a casting vote The Board recognises that in the period from 24 September 2010 until 1 June 2011 it was not compliant with the above in terms of the number of Non-Executive Directors Martin Bryant's appointment to the Board resulted in an equal number of Executive and Non-Executive Directors including the Chairman being restored 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, the Vice-Chairman, David Rutter, 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, 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 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 following appointment All Directors must submit themselves for re-election by rotation at an Annual General Meeting at least every three years The Board are keeping under review the issue of whether the current three-year period should be reduced to annually, in line with the Annotated UK Corporate Governance Code

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 continued to serve throughout 2011 The Committee currently comprises two other Non-Executive Directors, one of whom was the Society's Chairman until he stood down from the Committee on 13 June 2011 This was permitted by the Annotated Combined Code but not the replacement Annotated UK Corporate Governance Code

The Audit Committee meets at least four times a year and assists the Board in fulfilling its responsibilities in respect of the Annual Accounts and Regulatory Returns to the FSA and keeps under review the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters It also reports to the Board on the valuation methods and assumptions, accounting policies, systems of internal control and conclusions from internal audit reports The external auditors attend key meetings and, in addition to the Corporate Audit Manager and Chief Actuary, have direct access to the Chairman of the Committee The Committee keeps the relationship between the Society and its external auditors under review and considers their independence, including the extent of their fees from non-audit services The Board is satisfied that the members of the Committee in 2011 had recent and relevant financial experience

During 2011 the Board endorsed the Committee's recommendation that a formal review of whether the external audit appointment be put to tender should, subject to a satisfactory outcome of the annual effectiveness review and any regulatory changes, be carried out in the sixth year of the audit partner's appointment or on the prior change of the audit partner

Also during 2011 the Committee debated the appropriateness of engaging the external auditors for non-audit services Consideration was given to the impact on the independence and objectivity for each engagement for which approval was sought from the Committee Where it was considered that there would be no such impact approval was given to the use of the external auditors The value of the engagements for which approval was granted during the year was £175,000 (excluding VAT) of which £30,000 was incurred in 2011

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

Corporate Governance continued

Risk Committee

The Risk Committee provides independent oversight of the Group's risk management framework and its outputs by reviewing the quality, independence and effectiveness of the Group's risk function, reports on the Group's risk management framework and reports that assess the nature and extent of risks facing the Group

The Risk Committee is chaired by David Rutter and currently comprises two other Non-Executive Directors, one of whom is the Chairman of the Society's Audit Committee Prior to 13 June 2011 the Chief Executive was a member of the Committee

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

Investment Committee

Bryan Jackson chaired the Investment Committee which met four times in 2011 with the Committee comprising one other Non-Executive Director, the Chief Executive, the Investment Director, the Chief Actuary, the Senior Investment Manager, the Fund Manager (Staff Pension Scheme), Investment Manager (Pensions Managed Fund and External Funds), the Marketing Director and an external independent specialist

The Board sets policy for strategic asset allocation for the with profits and non-profit, (including unit-linked) funds and the Society's capital delegating implementation to the Investment Director The Committee monitors adherence to these asset allocations and makes comments to the Board as necessary

From January 2012 the Committee's responsibilities have been assumed by the Risk Committee and the Executive Finance, Sales and Manufacturing Committee

Remuneration Committee

Chris Brinsmead took over the Chairmanship of the Committee from 1 January 2011 The Committee comprises two other Non-Executive Directors with the Chief Executive in attendance as required The Committee is responsible for the terms of remuneration for Executive Directors, other members of the Executive Committee and Non-Executive Directors, including arrangements for short and long term incentive payments The Chairman takes no part in the setting of his own remuneration The Committee's Terms of Reference are available on request and from the Society's website – **www wesleyan co uk**

The Nominations Committee

Bryan Jackson, Chairman, chairs the Nominations Committee The Committee comprises two Non-Executive Directors and the Chief Executive 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 is 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 external advisers 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 Board established two With Profits Committees to ensure compliance with the two Principles and Practices of Financial Management documents ("PPFMs") regarding the management of with profits business One Committee covers the Medical Sickness Society Fund, which is closed to new business and, in addition to a Non-Executive Director, includes a former member and two 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 Appointments to this Committee are subject to Board approval The other Committee covers the Open Fund on which all new with profits business has been issued since the date of the merger It is also 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 are made up of two Non-Executive Directors and two external appointees The Committees' Terms of Reference and the PPFMs are available on request and from the Society's website – **www wesleyan co uk**

	Society's Board	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Investment Committee	Open Fund With Profits Committee
Meetings in the year	9	5	7	4	3	4	4
Non-Executive Directors							
Bryan Jackson	9	4/4	–	4	3	4	–
David Rutter	9	5	7	–	–	4	4
Keith Nicholson	9	5	7	–	1/1	–	–
Chris Brinsmead	8/9	–	–	4	–	–	–
Martin Bryant	4/5	1/1	3/4	–	1/1	–	–
Philip Green	8/9	–	–	4	2/3	–	3/4
Executive Directors							
Craig Errington	9	–	2/3	–	3	4	–
Clive Bridge	8/9	–	–	–	1/1	–	–
Steve Deutsch	9	–	–	–	–	–	–
Martin Howard	6/6	–	–	–	–	–	–
Michael Lewis	9	–	–	–	–	4	–
Samantha Porter	3/3	–	–	–	–	3/4	–
Matthew Rodhouse	5/6	–	1/1	–	–	–	–
Chief Actuary							
Tim Pindar	9	–	–	–	–	4	–

Subsidiary company governance

The Society's main subsidiaries are as set out in Note 20 on pages 64 and 65 of these Accounts The Group is managed as far as possible as an integrated whole The Boards of Wesleyan Financial Services Limited, Wesleyan Unit Trust Managers Limited and Wesleyan Key Business Finance Limited are chaired by the Chief Executive with other senior executive colleagues appointed to the particular Board relevant to their role The Board of Wesleyan Bank Limited includes the Chief Executive as Chairman, the Vice-Chairman of the Society, the Chief Operating Officer- Sales and the Director of Banking and General Insurance and two independent Non-Executive Directors with significant experience of the banking industry, one of whom retired on 31 December 2011 The Society's Risk and Finance Director served on the Board from 1 January to 31 July 2011

Each of these Boards of Directors meets as appropriate to consider the matters relevant to those companies

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 the Executive Committee 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

A number of sub-committees of the Executive Committee also meet to consider issues in more depth Minutes are considered by the Executive Committee at its next meeting

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

The effectiveness of the Society's system of internal control, including financial, operational and compliance controls and risk management processes, is reviewed by the Audit Committee on behalf of the Board and the outcome reported to the Board The principal components of the Society's system of internal control and developments in 2011 are detailed overleaf

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, 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 report and the Corporate Audit report in order that it may sign the Directors' Certificate attached to the annual return to the FSA

Control procedures

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

- An Executive Risk and Governance Committee, chaired by the Chief Executive, to consider issues 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 Sales and Marketing Rules including changes in the regulatory environment in more depth on behalf of the Executive Committee
- 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")
- The Society's Compliance Officer monitors the compliance with the FSA'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
- In addition the Society has developed Business Continuity Plans 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 The Society's Business Continuity Plan is overseen by the Executive Risk and Governance Committee and through this, by the Risk Committee

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 FSA regulation over its sales and marketing functions

Risk Management

Key risks are referred to in the Chief Executive's Review under "Looking Ahead" and in the Business Review under "Principal Risk and Uncertainties"

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

Internal audit

The Society has an internal audit capability (Corporate Audit) to provide assurance over the operation of the system of internal control It carries out reviews on a risk-based cycle The programme of internal audit reviews is based on the Society's risk register and is designed to provide assurance that the risk mitigating actions identified by management and the risk register are working effectively All internal audit reviews are reported to the Executive Risk and Governance Committee and Audit Committee

Monitoring and corrective action

The Risk function reports to the Executive Risk and Governance Committee, the Risk Committee and the Board on the results of the risk assessment and other significant changes in the risk register, including 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 All other relevant information is made available on the website 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 (**joe roderick@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

8. Directors' Remuneration Report

In accordance with the Annotated Version of the new 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 The result of this vote at the Society's 2011 AGM was 95 2% in favour (2010 95 1% in favour)

The Remuneration Committee's decisions are made on the basis of rewarding individuals for the scope of their responsibilities and a rigorous and regular review of their individual performance The Committee seeks to instil discipline and meet the highest standards Proper regard is paid to the need to retain good quality, highly-motivated staff and the remuneration being paid by competitors of the Society is taken into consideration In this respect the Committee receives external benchmarking data where required

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 principles adopted in determining the fees 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

Corporate Governance continued

Non-Executive Directors' remuneration comprises a specified fee, which includes extra amounts for specific additional responsibilities

The Remuneration Committee has determined that its approach to remuneration for Executive Directors and other members of the Executive should be based on

(i) the salary element, reflecting market rates and individual performance and not necessarily automatic annual increases in line with inflation,

(ii) performance-related remuneration, to influence and encourage high levels of performance,

(iii) senior executives being regularly assessed on their performance and contribution,

(iv) ensuring that bonuses reflect individual performance and the performance of the Society, measured against its business objectives and targets, and

(v) the design and monitoring of a short-term bonus scheme and a long-term incentive plan that discourages excessive risk taking and reflects the longer-term interests of the Society

Directors' Remuneration (audited)

The total emoluments of the Directors, excluding pension benefits, comprise	2011 £	2010 £
Non-Executive Directors		
Bryan Jackson, Chairman from 7 May 2010	**96,000**	74,300
Lowry Maclean, Chairman until retirement on 7 May 2010	–	34,580
David Rutter, Vice-Chairman	**57,600**	55,167
Keith Nicholson, Deputy Chairman	**57,600**	53,900
Chris Brinsmead (appointed 1 April 2010)	**44,280**	35,055
Martin Bryant (appointed 1 June 2011)	**25,830**	–
Phillip Green (appointed 1 January 2010)	**44,280**	44,280
David Tyrrell (retired 7 May 2010)	–	13,007
Total for Non-Executive Directors	**325,590**	310,289

	Salaries £	Benefits £	Bonus £	Allowance in lieu of pension accrual† £	Long term Incentive Plan £	Total 2011 £	Total 2010 £
Executive Directors							
Craig Errington (Chief Executive)	350,577	13,354	70,533	68,500	52,587	**555,551**	398,980
Clive Bridge (appointed 24 September 2010)	185,490	11,954	37,267	–	27,098	**261,809**	86,092
Steve Deutsch	212,873	11,954	43,306	–	31,075	**299,208**	248,290
Martin Howard (resigned 9 September 2011)	118,753	8,281	–	–	–	**127,034**	214,615
Michael Lewis	227,245	18,595	23,271	–	34,087	**303,198**	277,020
Samantha Porter (appointed 29 September 2011)	36,250	2,996	24,361	–	19,313	**82,920**	–
Matthew Rodhouse (resigned 31 July 2011)*	107,593	6,961	–	–	–	**114,554**	223,998
Total for Executive Directors	1,238,781	74,095	198,738	68,500	164,160	**1,744,274**	1,448,995

* Additional payment in lieu of notice of £368,888 made on 31 July 2011

† With effect from 1 January 2011 Craig Errington has elected to accrue pension in Wesleyan Staff Pension Scheme only up to the Annual Allowance and to receive a taxable cash allowance in lieu

Benefits and executive short-term bonus entitlements

Executive Directors' benefits include either a car allowance or the provision of a car (including all maintenance costs), and private medical cover The Society's policy is to ensure that there is an appropriate incentive for Executive Directors and other members of the Executive to meet the annual objectives of the business To this end, there is a short-term bonus scheme based on a combination of the current year's results and individual performance Details of the individual figures for the Executive Directors are provided in the table above Payments under the short-term bonus scheme, based on the Society's strong performance in 2011, represented an amount equivalent to 11 6% of salary and are non-pensionable

No benefits are paid to Non-Executive Directors

Service contracts

Each Executive Director has a rolling service contract of one year 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

No Non-Executive Director has a service contract

Long-term incentive plan

In order to ensure that the remuneration package of the Executive reflects the long-term performance of the Society and members' interests, the Remuneration Committee also operates a Long Term Incentive Plan (LTIP) for Executive Directors and other members of the Executive

The primary objective of this plan is to align remuneration with the longer term goals of the Society The LTIP also helps the Society to recruit and retain executives of the calibre required to promote the interests of members

Under the LTIP, the Executive team is eligible to receive a performance related payment based on the progress against the Society's objectives and the investment performance of the Society over rolling three year periods

The plan is designed to make payments in the early part of the year following the end of the three year period providing that strong performance is achieved against the current three year plan An on-plan performance over each of the three year periods would provide a 15% of salary cash payment, with a current maximum of 30% for consistent top performance over the three year period The Committee however can award a lower payment if appropriate

To protect the interests of members, the Committee may amend any payment 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

All payments under the LTIP are subject to approval by the Remuneration Committee and are non-pensionable

No share options are available

Pension arrangements

Each Executive Director is a member of the Society's staff pension scheme with the addition, where the lifetime allowance is exceeded, of unfunded pension benefits provided by the Society

These pension arrangements provide for a defined benefit pension on retirement accrued for each year's membership of the Scheme and, depending on the date of joining the Society, is either based on final salary or career average revalued earnings No other payments to Executive Directors are pensionable The Scheme also provides 4 x pensionable salary death-in-service benefit cover to all its active members

The pension entitlement shown overleaf is that which would be paid annually on retirement based on service to 31 December 2011 Transfer values shown are calculated in accordance with the transfer value basis that applied as at 31 December 2011 and 31 December 2010 respectively The transfer values of the person's accrued benefits under the Scheme at the end of the relevant financial year have been calculated in accordance with regulations 7 to 7E of the Occupational Pension Schemes (Transfer Values) Regulations 1996

No pension benefits are accrued by Non-Executive Directors

The values represent actuarial liabilities of the Scheme and the Society, not sums due to Directors Members of Wesleyan Staff Pension Scheme have the option to pay additional voluntary contributions to secure additional pension These are not included in the table below

Directors' Pensions (audited)

	Age at 31 12 2011	Years of Pensionable service at 31 12 2011	Accrued entitlement at 31 12 2011 £'000	Additional accrued benefits earned in the year* £'000	Transfer value of pension at 31 Dec 2011 £'000	Transfer value of pension at 31 Dec 2010 £'000	Changes in transfer value attributable to increase in Entitlement† £'000
Craig Errington	48	20	99	3	**2,044**	1,757	24
Clive Bridge	53	3	9	3	**192**	95	55
Steve Deutsch	48	6	20	4	**395**	242	59
Michael Lewis	58	28	106	4	**2,914**	2,412	62
Samantha Porter	40	17	38	3	**635**	529	34

* The increase in the Director's accrued entitlement which is valued is net of the inflationary increase which would have been applied during the period had the Director left the Scheme on 31 December 2010

† The value shown is net of the contribution that the Director made to the Scheme during the period towards the cost of providing the benefit

In addition, annual pensions are payable to the following Non-Executive Directors in respect of previous full-time employment

	2011 £	2010 £
Lowry Maclean (retired from the Board on 7 May 2010)	–	64,117
David Rutter	**104,892**	100,279
David Tyrrell (retired from the Board on 7 May 2010)	–	36,319

Of the pensions payable to Lowry Maclean and David Tyrrell for the period 1 January to 7 May 2010 £37,675 and £10,372 respectively were payable by the Society, the balance being payable by Wesleyan Staff Pension Scheme

BY ORDER OF THE BOARD

Joe Roderick
Company Secretary

22 March 2012

The Directors present their annual report and audited consolidated financial statements for the year ended 31 December 2011

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 24 to these accounts

Principal activities

The principal activities of the Group during 2011 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 lending, commercial lending, unit trust management and acting as a general insurance broker

Review of business and future developments

The Society's business is reviewed by the Chairman and the Chief Executive on pages 4 to 7 and the Business Review on pages 8 to 11 The level of new business exceeded expectations in 2011 The year-end financial position is considered satisfactory given the current volatility of markets and the general outlook As set out in those statements, the Society is projecting further growth in 2012 and beyond, based on expansion and ongoing improvements in its current method of operation Although the Society does not publish accounts on the European Embedded Value basis used by our quoted competitors due to the costs involved, performance is tracked internally using embedded value principles On this basis the sales force income of Wesleyan Financial Services Limited has increased by 16 1% (2010 16 6%)

The Key Performance Indicators, on which the Board and Management principally focus, are discussed in the Business Review on pages 8 to 11 inclusive and summarised in the Financial Summary on page 3 These include the Society's new business, investment returns, with profits payouts and the level of working capital 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 34 to 70 show the results for the year ended 31 December 2011 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 2011 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 27

Risk Management

Details of the key risks to the Society and its approach to risk management are set out on pages 12 and 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 Martin Bryant joined the Board on 1 June 2011, Samantha Porter on 29 September 2011 and Rob Green on 20 February 2012 Each will be subject to re-appointment at the AGM in 2012

The Directors retiring by rotation are Chris Brinsmead, Philip Green, Keith Nicholson and David Rutter who, being eligible, offer themselves for re-election None of the Directors has 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

Disabled persons

It is the Society's policy to give full consideration to suitable applications for employment by disabled persons 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

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.

Charitable donations

Charitable donations amounted to £68,352 (2010: £93,669). The Society's main charitable recipient was CLIC Sargent. 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 £
CLIC Sargent	33,539
Marie Curie Cancer Care	8,297
Children in Need	3,056
Other charities	23,460
Total	**68,352**

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 15 days' supplies (2010: 18 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

Joe Roderick
Company Secretary

22 March 2012

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 2011 which in value total £44 3m (2010 £52 7m)

Ordinary life assurance business	
Standard with profits policies	1 50% of basic sum assured (2010 1 75%) and 2 00% of existing bonuses (2010 3 00%)
Unitised with profits policies (Gross of management charge)	2 50% of existing bonuses (2010 3 00%)
Pension business	
Conventional with profits policies (including paid-up policies)	0 30% of capital amount (2010 0 30%) and 0 50% of existing bonuses (2010 0 50%)
Unitised with profit policies (Series 1) (Gross of management charge)	3 75% of value of units (2010 4 25%)
Unitised with profit policies (other Series) (Gross of management charge)	3 00% of value of units (2010 3 50%)
Industrial life assurance business	1 00% of basic sum assured (2010 1 50%)
With Profits ISA (Gross of management charge)	3 25% of value of units (2010 4 00%)

Examples of amounts payable on maturity on 1 July 2012 and 1 July 2011 are as follows

	Age	Term	Premium per month	**2012**	2011
Ordinary life assurance business	30	10 years	£50	£6,829	£7,260
	30	25 years	£50	£47,205	£51,585
Pensions business	50	15 years	£200	£48,989	£49,389
	45	20 years	£200	£98,540	£106,640
Industrial life assurance business	45	20 years	£12 4 weekly	£5,220	£5,625

	Age	Term	Single Premium	**2012**	2011
Guaranteed Growth Bond	N/A	5 years	£5,000	£6,000	£6,000

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

Ordinary life assurance business	0 75% of basic sum assured (2010 1 00%) and 3 00% of existing bonuses (2010 3 00%)
Pensions business	
Pure endowments	0 75% of the cash sum secured and the existing bonuses (2010 1 00%)

This is an extract of the full declaration

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Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Society and the Group and of the Group's results for that period

In preparing those 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, in which case there should be supporting assumptions or qualifications as necessary, 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for 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

Statement of disclosure of confirmation to Auditors

In addition, in respect of each person who was a Director at the time the Directors' Report was approved

(a) so far as the Director is aware, there was no relevant audit information of which the Group's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information

BY ORDER OF THE BOARD

Joe Roderick
Company Secretary

22 March 2012

Independent Auditors' Report

to the Members of Wesleyan Assurance Society

We have audited the Group and Society financial statements (the "financial statements") of Wesleyan Assurance Society for the year ended 31 December 2011 which comprise the Consolidated Profit and Loss Account, the Group and Society Balance Sheets and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 28 the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) These 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

Scope of the audit of the financial statements

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 Report and Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2011 and of the Group's result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been properly prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Society, or
- the Society's financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

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 by the Association of Financial Mutuals We have nothing to report in respect of these reviews

Gail Tucker
(Senior Statutory Auditor)

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

22 March 2012

Financial Statements

Consolidated Profit and Loss Account

For the year ended 31 December 2011

	Note	2011 £m	2010 £m
Technical Account – Long-term Business			
Earned premiums, net of reinsurance	3(a)		
Gross premiums written		**277 1**	211 1
Outward reinsurance premiums		**(17 7)**	(18 3)
		259 4	192 8
Investment income	4	**172 6**	199 8
Unrealised gains on investments	4	**8 0**	238 8
Other technical income	5(a)	**11 1**	9 5
Total Technical Income		**451 1**	640 9
Claims incurred	6		
Claims paid – gross amount		**(274 1)**	(222 1)
– reinsurers' share		**27 6**	27 8
		(246 5)	(194 3)
Change in the provision for claims		**(1 4)**	(1 5)
		(247 9)	(195 8)
Change in other technical provisions	14		
Long-term business provision – gross amount		**(167 5)**	(191 4)
– reinsurers' share		**(5 9)**	(37 7)
		(173 4)	(229 1)
Net operating expenses	7	**(61 8)**	(48 2)
Investment expenses and charges	4	**(3 7)**	(3 0)
Allocation of net investment return to investment contracts	14	**38 4**	(74 0)
Other technical charges	5(b)	**(5 1)**	(4 8)
Tax attributable to the long-term business	9	**9 6**	(19 3)
Change in present value of future profits on non-profit business written in the with profits fund	13	**(24 1)**	(1 6)
Actuarial (loss)/gain on pension scheme	23	**(10 0)**	26 6
Transfers from/(to) the fund for future appropriations	13	**26 9**	(91 7)
		(29 8)	(216 0)
Total Technical Charges		**(451 1)**	(640 9)
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 2011

	Note	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Assets					
Intangible assets					
Goodwill	10(d)	**2 5**	3 2	–	–
Investments					
Land and buildings	10	**215 1**	223 2	**215 1**	223 2
Investments in group undertakings	20	–	–	**35 9**	36 6
Other financial investments	10	**3,269 8**	3,029 4	**3,110 6**	2,871 2
		3,484 9	3,252 6	**3,361 6**	3,131 0
Present value of future profits on non-profit business written in the with profits fund	13	**185 0**	209 1	**185 0**	209 1
Assets held to cover liabilities on investment contracts	10(b)	**852 6**	883 8	**852 6**	883 8
Reinsurers' share of technical provisions					
Long-term business provision	14	**126 1**	132 0	**126 1**	132 0
Claims outstanding		**0 8**	0 6	**0 8**	0 6
		126 9	132 6	**126 9**	132 6
Debtors					
Debtors arising out of direct insurance operations		**2 8**	2 9	**2 8**	3 0
Debtors arising out of reinsurance operations		**7 2**	8 3	**7 2**	8 3
Other debtors	11	**2 5**	3 2	**1 4**	1 3
		12 5	14 4	**11 4**	12 6
Other assets					
Tangible assets	12	**16 7**	11 7	**16 7**	11 7
Cash at bank and in hand		**34 2**	19 8	**22 4**	12 8
		50 9	31 5	**39 1**	24 5
Prepayments and accrued income					
Accrued interest and rent		**24 8**	26 0	**24 8**	26 0
Other prepayments and accrued income		**3 0**	4 9	–	1 1
		27 8	30 9	**24 8**	27 1
Total Assets (excluding pension asset)		**4,743 1**	4,558 1	**4,601 4**	4,420 7
Pension Asset	23	**45 4**	50 4	**45 4**	50 4
Total Assets (including pension asset)		**4,788 5**	4,608 5	**4,646 8**	4,471 1

The notes on pages 34 to 70 form an integral part of these financial statements

Balance Sheets
as at 31 December 2011

	Note	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Liabilities					
Non-current liabilities					
Fund for Future Appropriations	13	**585 2**	612 1	**585 2**	612 1
Technical Provisions					
Long-term business provision	14	**3,041 5**	2,874 0	**3,041 5**	2,874 0
Claims outstanding		**12 8**	11 3	**12 8**	11 3
		3,054 3	2,885 3	**3,054 3**	2,885 3
Liabilities on Investment Contracts	14	**852 6**	883 8	**852 6**	883 8
Provisions for other Risks and Charges	15	**49 4**	62 8	**44 9**	58 7
Derivative Financial Instrument	2 & 10(c)	**–**	5 3	**–**	5 3
Deposits received from Reinsurers	16	**82 2**	–	**82 2**	–
Current liabilities					
Creditors					
Creditors arising out of direct insurance operations		**–**	1 1	**–**	1 1
Creditors arising out of reinsurance operations		**0 6**	0 4	**0 6**	0 4
Other creditors including taxation and social security	17	**21 6**	20 5	**21 0**	18 0
Customer bank accounts	2	**126 4**	119 2	**–**	–
		148 6	141 2	**21 6**	19 5
Accruals and Deferred Income		**16 2**	18 0	**6 0**	6 4
Total Liabilities		**4,788 5**	4,608 5	**4,646 8**	4,471 1

The notes on pages 34 to 70 form an integral part of these financial statements

The financial statements on page 31 to 70 were approved by the Board of Directors on 22 March 2012 and signed on its behalf by

Bryan Jackson
Chairman

Craig Errington
Chief Executive

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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 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 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 period 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 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 "Liabilities on Investment Contracts "

(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

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 period 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, 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 "Liabilities on Investment Contracts"

Fees receivable from investment contracts (included in "Other technical income") are recognised in the profit and loss account in the year they are assessed, unless they relate to services to be provided in future years, in which case they are deferred and recognised 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, Charles Barratt, 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 sales costs referenced to comparable properties

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 as 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

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

1. Accounting Policies continued

(iii) Other financial investments continued

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 remeasured 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 investment contracts

Assets held to cover investment contracts 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 2011

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 FSA'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

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 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

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 The liability includes an allowance for the time and intrinsic value of options and guarantees granted to policyholders and for possible future management actions

Notes to the Accounts continued

1. Accounting Policies continued

(i) Insurance contracts and participating investment contracts continued

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

Liabilities on investment contracts

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 in accordance with the provisions of FRS 19 "Deferred Tax"

The Society has chosen to apply the option available under FRS 19 of recognising certain assets and liabilities on a discounted basis to reflect the time value of money The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets or liabilities Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date

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 Executive Risk and Governance Committee (previously the Risk and Business Controls Forum) 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 Executive Committee on a regular basis
- 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 Financial Condition Report 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 10 year period

Outputs are reviewed by the Risk Committee which is tasked by the Board with providing independent oversight of the risk management framework

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

2. Risk Management continued

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 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 compliance with its risk appetite is assessed through both quantitative and qualitative measures

Key Risks

Market risk is considered the most significant risk to the Society due to the high equity backing ratio mentioned below Further details, including quantification where relevant of the principal risks and how these are managed, are set out below as follows

- Market risk
- Insurance risk
- Business risk
- Credit risk
- Liquidity 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 Financial Condition Report and through the Individual Capital Assessment

The separate responsibilities of the Board, the Risk Committee and the Executive Finance, Sales and Manufacturing 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 £289 9m (2010 £297 1m) non-linked assets held in other currencies, £91 8m (2010 £85 8m) is held in US-denominated assets, £115 9m (2010 £121 5m) is held in euro-denominated assets, £55 9m (2010 £60 9m) in Far Eastern assets and £26 3m (2010 £28 9m) 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

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

2. Risk Management continued

(ii) Overview of insurance and investment contracts issued by the Society continued

With profits insurance and investment contracts continued

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 the commission 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 principally 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 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 12 and13

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

2. Risk Management continued

Credit Risk continued

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 2011 the Society's custodians held collateral represented by AAA-rated assets valued at £46 9m (2010 £17 4m) 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 51

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

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

	2011 £m	2010 £m
Repayable on demand	**43 4**	47 8
3 months or less but not on demand	**21 5**	19 5
1 year or less but over 3 months	**33 7**	24 2
5 years or less but over 1 year	**27 8**	27 7
	126 4	119 2

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 ILAS firm as advised by the FSA 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 daily by means of a cash position report in accordance with the FSA's reporting requirements

Details of the derivative financial instrument held by the Society are disclosed on page 45 It has a contractual maturity date in March 2015 All other financial liabilities are repayable on demand

In excess of £4 0bn (2010 £3 8bn) of the Group's assets are either highly liquid or readily realisable and therefore available to support the Group's liabilities at limited notice

Operational Risk

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

The MSSF is operated in accordance with the Scheme Merger documentation and is only exposed to risks arising from policies in MSSF itself

The 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

Fair value

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

(a) 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 2011				
	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**	2010 Total £m
Financial Assets designated at fair value					
Shares and other variable yield securities	1,690 6	–	–	**1,690 6**	1,738 7
Debt and other fixed income securities	1,084 3	–	2 2	**1,086 5**	801 4
Deposits with credit institutions	–	329 3	–	**329 3**	365 9
Derivatives					
Swaptions	–	45 6	–	**45 6**	24 9
Equity collar (Note below)	–	2 1	–	**2 1**	–
Total Assets*	**2,774 9**	**377 0**	**2 2**	**3,154 1**	2,930 9

* Excluding unit linked assets

Financial Liabilities at fair value through profit and loss

Derivative					
Equity collar (Note below)	–	–	–	–	5 3
Total liabilities	–	–	–	–	5 3

Note A zero cost "cap and collar derivative financial instrument was purchased through the Royal Bank of Scotland plc in December 2009 based on a notional value of £100m of equities in the FTSE 100 index – the instrument s expiry date is March 2015 The instrument has been fairly valued at the year end with any movement in its value accounted for in the profit and loss account

2. Risk Management continued

(b) Reconciliation of Level 3 Items

Financial Assets at fair value through profit and loss

	Financial Assets designated at fair value			
	Equity Securities £m	Debt Securities £m	Total £m	Total 2010 £m
At 1 January 2011	–	2 2	**2 2**	2 5
Transfers out of Level 3	–	–	–	(0 3)
At 31 December 2011	**–**	**2 2**	**2 2**	**2 2**

Debt securities have been valued by discounting future cash flows using rates of discount in the range 9–12% The Society held 1 unquoted equity at 31 December 2011 (2010 1) with a value of £38,000 (2010 £38,000)

There were no gains or losses included in the profit or loss Of the total of £2 2m (2010 £2 2m) for debt securities at 31 December 2011 £2 0m (2010 £2 0m) relates to a single unquoted fixed interest stock which was redeemed in full in February 2012 Given the information and the relative immateriality of the amounts involved no sensitivity of Level 3 measurements to reasonably possible alternative assumptions has been undertaken

3(a). Earned Premium

	2011			2010		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Earned Premiums – Society						
Premiums written						
Life ordinary business						
Non-linked regular	**14 1**	**(2 0)**	**12 1**	13 8	(1 9)	11 9
Non-linked single	**95 4**	**–**	**95 4**	60 2	–	60 2
	109 5	**(2 0)**	**107 5**	74 0	(1 9)	72 1
Pension business						
Non-linked regular	**15 0**	**–**	**15 0**	14 7	–	14 7
Non-linked single	**16 3**	**–**	**16 3**	15 9	–	15 9
	31 3	**–**	**31 3**	30 6	–	30 6
Industrial business						
Non-linked regular	**0 8**	**–**	**0 8**	0 9	–	0 9
Income Protection Insurance						
Non-linked regular	**50 2**	**(15 7)**	**34 5**	45 4	(16 4)	29 0
With Profits ISA						
Regular	**15 9**	**–**	**15 9**	11 8	–	11 8
Single	**69 4**	**–**	**69 4**	48 4	–	48 4
	85 3	**–**	**85 3**	60 2	–	60 2
	277 1	**(17 7)**	**259 4**	211 1	(18 3)	192 8

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

	2011 £m	2010 £m
Life – regular	**4 3**	4 7
Life – single	**3 5**	2 2
Pension – regular	**29 1**	30 9
Pension – single	**16 5**	16 1
Income Protection – regular	**3 0**	3 1
	56 4	57 0

3(b). New Business Premiums

	2011 £m	2010 £m
Regular premiums	**19 1**	18 4
Single premiums	**23 4**	16 8
	42 5	35 2
Life business	**12 6**	9 0
Pension business	**6 7**	7 1
Income protection insurance	**3 8**	3 5
ISAs/Unit trusts*	**15 6**	12 4
	38 7	32 0
Annuities**	**3 8**	3 2
	42 5	35 2

* 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 contract new business are as follows

	2011 £m	2010 £m
Regular	**2 2**	2 3
Single	**2 0**	1 8
	4 2	4 1
Life ordinary business	**0 6**	0 5
Pension business	**3 6**	3 6
	4 2	4 1

The above 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

3(c). Reassurance

The reassurance balance amounted to a charge to the Technical Account – Long-term Business at 31 December 2011 of £11 9m (2010 a credit of £20 1m)

4. Investment Activity Account

	2011 £m	2010 £m
Investment income		
Income from land and buildings	**18 4**	20 9
Income from other investments	**134 0**	118 1
Net gains on the realisation of investments	**18 9**	61 0
Net return on pension schemes (Note 23)	**1 3**	(0 2)
	172 6	199 8
Investment expenses	**(3 5)**	(2 4)
Investment charges	**(0 2)**	(0 6)
Net unrealised gains on investments	**8 0**	238 8
Investment return	**176 9**	435 6

5(a). Other Technical Income

	2011 £m	2010 £m
Net profit from non-insurance subsidiaries*	**3 3**	2 1
Other commissions	**0 2**	0 2
Fee income in respect of investment contracts (Note 14)	**7 6**	7 2
	11 1	9 5

* Includes the net profit of Wesleyan Bank Limited ("the Bank") amounting to £2 2m (2010 £1 8m) derived from turnover totalling £11 7m (2010 £10 6m) The net assets of the Bank at 31 December 2011 amounted to £19 4m (2010 £15 2m)

5(b). Other Technical Charges

	2011 £m	2010 £m
Net loss from non-insurance subsidiaries	**5 1**	4 8

6. Claims Incurred

	2011			2010		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Claims paid	**270 3**	**(27 6)**	**242 7**	219 6	(27 8)	191 8
Claims handling expenses	**3 8**	**–**	**3 8**	2 5	–	2 5
	274 1	**(27 6)**	**246 5**	222 1	(27 8)	194 3
Change in provision for claims	**1 4**	**–**	**1 4**	1 5	–	1 5
	275 5	**(27 6)**	**247 9**	223 6	(27 8)	195 8
Analysed by type of benefit						
Death claims			**16 0**			15 6
Maturities			**83 9**			58 9
Surrenders			**84 1**			65 6
Annuities			**50 1**			43 0
Income protection claims			**13 8**			12 7
			247 9			195 8

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

	2011 £m	2010 £m
Death claims	**2 9**	2 4
Maturities	**1 3**	2 3
Surrenders	**37 4**	38 3
	41 6	43 0

7. Net Operating Expenses – Society only

	2011 £m	2010 £m
Acquisition costs	**36 6**	29 9
Administrative expenses*	**25 8**	23 6
Other expenses**	**6 7**	2 4
Reassurance commission	**(2 1)**	(2 2)
Reassurance profit share	**(5 7)**	(6 0)
	61 3	47 7
Amortisation of goodwill	**0 5**	0 5
Net Operating Expenses	**61 8**	48 2

* Administrative expenses include a fee of £9 3m (2010 £9 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

** Relates principally to costs incurred on Solvency II and RDR

	2011 £000	2010 £'000
Auditors' remuneration (including expenses) amounted to		
Audit fees – Society	**218**	134
Audit fees – other entities	**175**	181
Regulatory compliance	**132**	180
Taxation compliance	**62**	34
Taxation advice	**49**	49
Other fees	**43**	63
Administrative expenses for the Society also include		
Contract purchase finance charges – motor vehicles	**705**	1,597
Operating lease rentals – land and buildings	**974**	680
Depreciation of tangible assets	**4,284**	4,538

8. Staff Costs – Group

	2011 £m	2010 £m
Salaries	**47 8**	39 9
Social security costs	**5 0**	3 9
Pension cost charge* (Note 23)	**5 0**	4 7
	57 8	48 5

* Includes £0 5m (2010 £0 3m) in respect of the Society's defined contribution pension scheme

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

	2011 Number	2010 Number
Sales force	**354**	339
Head Office	**678**	568
	1,032	907

Note: Details of Directors remuneration are given in the Directors Remuneration Report on pages 21 to 24

9. Taxation – Society only

	2011 £m	2010 £m
Analysis of tax in the year		
Current tax		
UK corporation tax on income and gains	**(4 3)**	(11 6)
Group relief receivable	–	(0 7)
Foreign tax	**(0 9)**	(0 9)
Adjustments in respect of previous years	**0 8**	2 4
Total current tax	**(4 4)**	(10 8)
Deferred tax		
Origination and reversal of timing differences	**19 5**	(4 9)
Decrease in discount	**(5 7)**	(0 6)
Total deferred tax (Note 15)	**13 8**	(5 5)
Movement on deferred tax on pension scheme	**0 2**	(3 0)
Credit/(Charge) for taxation – Society	**9 6**	(19 3)

The tax charge for UK corporation tax is provided at rates between 20% and 26 5% (2010 20% and 28%) computed in accordance with the specific rules applicable to life assurance companies whereby no tax is charged on pension business profits

10(a). Investments

	Current value		Cost	
	2011 £m	2010 £m	2011 £m	2010 £m
Land and Buildings – Group and Society				
Freehold properties occupied by the Society	**26 0**	21 5	**30 2**	29 9
Other freehold properties	**175 4**	186 3	**112 5**	112 6
Long leasehold properties	**13 7**	15 4	**14 9**	14 6
	215 1	223 2	**157 6**	157 1
Other financial investments – Group				
Shares and other variable yield securities	**1,690 6**	1,738 7	**728 2**	705 9
Debt and other fixed income securities	**1,086 5**	801 4	**923 6**	744 7
Derivative financial instruments	**47 7**	24 9	**17 3**	19 1
Loans secured by mortgage	**0 1**	0 1	**0 1**	0 1
Other loans*	**115 6**	98 4	**115 6**	98 4
Deposits with credit institutions	**329 3**	365 9	**329 3**	356 1
	3,269 8	3,029 4	**2,114 1**	1,924 3
Other financial investments – Society				
Shares and other variable yield securities	**1,690 6**	1,738 7	**728 2**	705 9
Debt and other fixed income securities	**1,073 5**	791 7	**910 5**	735 1
Derivative financial instruments	**47 7**	24 9	**17 3**	19 1
Loans secured by mortgage	**0 1**	0 1	**0 1**	0 1
Other loans	**0 1**	0 1	**0 1**	0 1
Deposits with credit institutions	**298 6**	315 7	**298 5**	305 9
	3,110 6	2,871 2	**1,954 7**	1,766 2

Included within Derivative financial instruments are swaptions with a current value of £45 6m (2010 £24 9m) and a "cap and collar" derivative financial asset with a fair value of £2 1m (2010 £nil)

Other loans include loans secured on policies issued by the Society amounting to £2 1m (2010 £2 2m)

The value of unlisted investments included in shares and other variable yield securities and debt and other fixed income securities for the Group and Society amounted to £2 2m (2010 £2 2m)

* Apart from £0 1m (2010 £0 1m), Other Loans represent unsecured loans issued to customers by Wesleyan Bank Limited

	2011 £m	2010 £m
Non-linked assets subject to credit risk		
AAA	**1,121 2**	811 4
AA	**46 3**	43 7
A	**186 0**	179 0
BBB	**80 7**	51 0
Below BBB or not rated	**38 2**	43 2
Total assets bearing credit risk	**1,472 4**	1,128 3
Derivative financial instruments	**47 7**	24 9
Debt securities (see table below)	**1,424 7**	1,103 4
Total assets bearing credit risk	**1,472 4**	1,128 3

Analysis of debt securities is as follows	2011 £m	2010 £m
(i) Sovereign debt by country		
UK	**965 3**	680 0
USA	**18 4**	15 2
Germany	**22 5**	20 5
France	**14 1**	14 1
European Investment Bank	**9 0**	8 8
	1,029 3	738 6
(ii) Other debt securities		
UK Corporate Bonds	**340 0**	318 9
Corporate Bonds – Index-Linked	**55 4**	45 9
	395 4	364 8
	1,424 7	1,103 4

10(b). Assets held to cover Liabilities on Investment Contracts

	Current value		Cost	
	2011 £m	2010 £m	2011 £m	2010 £m
Other freehold properties	**13 0**	13 4	**7 0**	7 0
Shares and other variable yield securities	**661 2**	704 7	**514 8**	502 5
Debt and other fixed income securities	**115 3**	96 2	**75 9**	67 2
Deposits with credit institution	**63 1**	69 5	**61 9**	67 5
	852 6	883 8	**659 6**	644 2

10(c). Derivative Financial Instrument

	2011 £m	2010 £m
At 1 January	**(5 3)**	(2 6)
Movement in the year	**7 4**	(2 7)
At 31 December	**2 1**	(5 3)

Note: A zero cost "cap and collar" derivative financial instrument was purchased through the Royal Bank of Scotland plc in December 2009 based on a notional value of £100m of equities in the FTSE 100 index – the instrument's expiry date is in March 2015 The instrument has been fairly valued at the year end with any movement in its value accounted for in the Profit and Loss Account

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10(d). Goodwill – Group

	2011 £m	2010 £m
At 1 January	**3 2**	–
Addition in respect of acquisition		
Wesleyan Key Business Finance Limited	–	3 7
Reduction in respect of acquisition		
Wesleyan Key Business Finance Limited*	**(0 2)**	–
Charge to Profit and Loss Account		
Amortisation**	**(0 5)**	(0 5)
At 31 December	**2 5**	3 2

* The reduction of £0 2m reflects a reassessment of the expected consideration payable under the terms of the acquisition

** Goodwill has been amortised over the period in which the Group expects to obtain value for the staff expertise, the customer relationships and the name

11. Other Debtors

	Group		Society	
	2011 £m	2010 £m	2011 £m	2010 £m
Other debtors	**2 4**	2 8	**1 4**	1 3
Deferred tax	**0 1**	0 4	**–**	–
	2 5	3 2	**1 4**	1 3
Movement in the deferred tax asset				
As at 1 January 2011	**0 4**	0 1	–	–
(Charged)/Credited during the year	**(0 3)**	0 3	–	–
As at 31 December 2011	**0 1**	0 4	–	–
Analysed as follows				
Timing Differences	**0 1**	0 4	–	–

12. Tangible Assets – Group and Society

	Total £m	Computer equipment and software £m	Furniture and fittings £m	Motor vehicles £m
Cost				
At 1 January 2011	32 3	20 6	3 3	8 4
Additions	11 3	5 5	0 6	5 2
Disposals	(5 7)	(1 6)	–	(4 1)
At 31 December 2011	**37 9**	**24 5**	**3 9**	**9 5**
Accumulated Depreciation				
At 1 January 2011	20 6	15 9	1 2	3 5
Charge during the year	4 3	2 5	0 4	1 4
Disposals	(3 7)	(1 6)	–	(2 1)
At 31 December 2011	**21 2**	**16 8**	**1 6**	**2 8**
Net Book Amount				
At 31 December 2011	**16 7**	**7 7**	**2 3**	**6 7**
At 31 December 2010	11 7	4 7	2 1	4 9

The cost of motor vehicles held under contract purchase agreements amounted to £9 5m (2010 £8 4m) The aggregate depreciation of these assets amounted to £2 8m (2010 £3 5m)

13. Fund for Future Appropriations and Capital Management
Fund for Future Appropriations

	2011 £m	2010 £m
At 1 January	**612 1**	520 4
Transfer (to)/from profit and loss account	**(26 9)**	91 7
At 31 December*	**585 2**	612 1

* Includes the General Business Fund in the amount of £2 8m (2010 £2 7m) referred to in Note 22

Capital Management

(i) Overview

In reporting the Society's financial strength, capital and solvency are measured using the regulations prescribed by the FSA 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 FSA's capital requirements

Pillar 1

The Pillar 1 capital requirement is reported in the publicly available FSA Return Under the FSA'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 FSA 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 The Board uses this as the basis for its Capital Management

13. Fund for Future Appropriations and Capital Management continued

(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

Available capital resources

	OILTBF 2011 £m	**MSSF 2011 £m**	**Total 2011 £m**	OILTBF 2010 £m	MSSF 2010 £m	Total 2010 £m
Fund for Future Appropriations	**584 3**	**0 9**	**585 2**	611 0	1 1	612 1
Adjustments to assets	**(60 6)**	–	**(60 6)**	(63 9)	–	(63 9)
Other adjustments	**(26 7)**	**(0 9)**	**(27 6)**	(20 3)	(1 1)	(21 4)
Total available capital resources	**497 0**	–	**497 0**	526 8	–	526 8
Risk Capital Margin	**51 8**	–	**51 8**	35 0	–	35 0
Cover for Risk Capital Margin	**9 6 times**	–	**9 6 times**	15 1 times	–	15 1 times

(v) Movements in available capital resources

	OILTBF £m	MSSF £m	Total business £m
Balance at 1 January 2011	**527**	**–**	**527**
Modelling improvements	–	–	–
Effect of method changes	–	–	–
Effect of investment variations	(16)	5	(11)
Effect of experience variations	(12)	5	(7)
Effect of assumption changes	(2)	(6)	(8)
New Business	(4)	–	(4)
Other factors	4	(4)	–
Balance at 31 December 2011	**497**	**–**	**497**

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 weak investment return in 2011, which has increased the value of policy guarantees and results in the negative investment variance shown in the OILTBF The MSSF investment variations also include the impact of changes in the value of guaranteed annuity rate liabilities and the matching swaption assets, and of enhancements 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 (2010 risk free yields fell), that equity and property markets fall (2010 markets fell), persistency improves (2010 persistency improved) and credit risk increases (2010 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

A summary Realistic Balance Sheet is shown below

	2011 £m	2010 £m
Total regulatory with profits assets	**2,294 1**	2,204 8
Value of in-force business on a realistic basis	**229 9**	244 0
Total Realistic With Profits Assets	**2,524 0**	2,448 8
Realistic with profits liabilities		
– With profits benefit reserve	**1,663 6**	1,601 2
– Costs of smoothing	**(0 9)**	(5 2)
– Guarantees	**107 1**	88 9
– Options (guaranteed annuities)	**87 1**	39 9
– Other (incl current liabilities)	**170 1**	197 2
Total Realistic With Profits Liabilities	**2,027 0**	1,922 0
Total Realistic Available Capital	**497 0**	526 8
Risk Capital Margin	**(51 8)**	(35 0)
Total Realistic Excess Capital	**445 2**	491 8

Analysis of Liabilities

	2011 £m	2010 £m
With profits insurance contract liabilities	**1,555 5**	1,533 8
With profits investment contract liabilities with DPF	**300 0**	285 6
Non-participating insurance contract liabilities		
– Non-linked liabilities	**1,060 0**	922 6
Non-participating investment contract liabilities		
– Unit linked	**852 6**	883 8
Total Contract Liabilities	**3,768 1**	3,625 8

Analysis of change in present value of future profits on non-profit business written in the with profits fund

	2011 £m	2010 £m
At 1 January 2011	**209 1**	210 7
Unwind of discount rate	**8 3**	9 4
Profit released in the year	**(30 0)**	(23 6)
Value of new business	**23 2**	17 1
Experience variances	**(2 5)**	4 7
Economic assumption changes	**(10 7)**	(0 7)
Insurance assumption changes	**(7 4)**	(3 0)
Other	**(5 0)**	(5 5)
At 31 December 2011	**185 0**	209 1

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 40 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 2011

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

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 44% (2010 0 7% reduction) and an increase of 0 44% (2010 0 7% 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 FSA 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 FSA Returns

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 2011 £m	Impact on realistic available capital 2010 £m	Impact on value of in-force non profit business 2011 £m	Impact on value of in-force non profit business 2010 £m
Demographic				
10% reduction in annuitant mortality	**(3)**	(2)	**(22)**	(16)
10% reduction in assurance mortality	**–**	–	**1**	1
10% reduction in morbidity	**1**	1	**18**	18
10% reduction in lapses	**(3)**	(2)	**4**	3
10% reduction in expenses	**–**	–	**5**	3
Economic				
0 44% increase in interest rates (2010 0 7% increase)	**2**	6	**(8)**	(12)
0 44% reduction in interest rates (2010 0 7% reduction)	**(2)**	(6)	**8**	14
20% equity fall, 12 5% property fall	**(74)**	(73)	**(8)**	(10)

14. Long-term Business Provision and Liabilities on Investment Contracts

	Long term Business Provision: Insurance contracts £m	Long term Business Provision: Investment contracts with DPF £m	Long term Business Provision: Total £m	Liabilities on Investment Contracts £m
Gross provision				
At 1 January 2011	2,588 4	285 6	2,874 0	883 8
Change in technical provisions	153 1	14 4	167 5	(31 2)
At 31 December 2011	**2,741 5**	**300 0**	**3,041 5**	**852 6**
Reinsurers' share				
At 1 January 2011	132 0	–	132 0	–
Change in technical provisions	(5 9)	–	(5 9)	–
At 31 December 2011	**126 1**	–	**126 1**	**–**

Change in technical provisions on investment contracts

	2011 £m	2010 £m
The change in liabilities on investment contracts comprises		
Premiums received (Note 3(a))	**56 4**	57 0
Claims paid (Note 6)	**(41 6)**	(43 0)
Fee income deducted (Note 5(a))	**(7 6)**	(7 2)
	7 2	6 8
Allocation of net investment return	**(38 4)**	74 0
(Decrease)/increase in liabilities on investment contracts	**(31 2)**	80 8

Liability Analysis (net of reinsurance)

	OILTBF 2011 £m	MSSF 2011 £m	Total business 2011 £m	OILTBF 2010 £m	MSSF 2010 £m	Total business 2010 £m
With profits liabilities on realistic basis						
Options and guarantees	**102 2**	**91 9**	**194 1**	83 3	45 4	128 7
Other policyholder obligations	**1,223 8**	**437 5**	**1,661 3**	1,176 0	514 7	1,690 7
Total with profits liabilities	**1,326 0**	**529 4**	**1,855 4**	1,259 3	560 1	1,819 4
Non-profit life assurance	**1,054 4**	**5 6**	**1,060 0**	916 7	5 9	922 6
Total long-term business provisions	**2,380 4**	**535 0**	**2,915 4**	2,176 0	566 0	2,742 0
Linked provisions	**852 6**	**–**	**852 6**	883 8	–	883 8
Technical provisions in balance sheet	**3,233 0**	**535 0**	**3,768 0**	3,059 8	566 0	3,625 8

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	2011 £m	2010 £m
Bonuses paid as claims (including terminal bonus)	**48 9**	37 0
Bonuses allocated to policies in-force at 31 December	**5 4**	6 9
Total	**54 3**	43 9

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

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)

	2011 £	2010 £
Open Fund		
Ordinary business		
Life and Pensions – Premium Paying	**61 50**	50 25
Life and Pensions – Annuities	**41 00**	33 50
Life and Pensions – Single Premium/Paid Up	**41 00**	33 50
Income Protection	**61 50**	50 25
Industrial assurance business		
Premium Paying	**9 70**	8 40
Paid Up	**2 43**	2 10
MSS Fund		
Pensions – Premium Paying	**107 50**	83 00
Income Protection	**80 63**	62 25
Life – Premium Paying, Pensions – Single Premium/Paid Up	**53 75**	41 50

14. Long-term Business Provision and Liabilities on Investment Contracts continued

	2011 %	2010 %
% of Premium Expenses		
Open Fund		
Industrial assurance business		
Premium Paying/Premium Loan	**41 50**	45 00
Investment Expenses – % of fund		
Open Fund	**0 062**	0 072
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 2011 No market value reductions (MVRs) applied on early surrender or transfer at that date, and no MVRs were applied during 2011

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 2011 These experience assumptions were also compared against previous valuation assumptions Expense inflation was assumed to be constant at 3 8% (2010 4 0%) per annum, being 0 75% (2010 0 5%) 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 2011 and 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 FSA 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 £185 0m (2010 £209 1m) was then applied to these liabilities to allow for the present value of future profits on non-participating business (PVFPNP)

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

	2011 %	2010 %
Rates of Interest		
Ordinary business		
Life assurances	**1 85**	2 75
Pensions	**2 35**	3 45
Pension term assurances	**2 35**	3 45
Industrial assurance business		
Life assurance (paid-up)	**1 85**	2 75
Mortality		
Ordinary business		
Life assurances	**105%/88% AMC/AFC00 U**	105% AM/F92
Pensions	**None in deferment Male/Female 109%/100% RMV/RFV00[1]**	None in deferment 103%/85% RMV/RFV00 (medium-long cohort with min 1 75%/1 50% p a improvement) after vesting
ASW Pensions	**75% AM/AF92 U in deferment, Male/Female 109%/145% PCMA/PCFA00[1]**	75% AM/AF92 U in deferment, Male/Female 108%/144% PCMA/PCFA00 (medium-long cohort with min 1 75%/1 50% p a improvement) after vesting
Pension term assurance	**66% RMD/RFD00**	110% AM/F92 U
MSS Pension in payment	**Male/Female 68%/68% RMV/RFV00[1]**	67%/67% RMV/RFV00 (medium-long cohort with min 1 75%/1 50% p a improvement)
Industrial assurance business		
Life assurances	**15% ELT14M-4**	20% ELT14M-4

[1] Adjusted with improvements of 100% of CMI_2011 mortality improvement model (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 improvements was also 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

14. Long-term Business Provision and Liabilities on Investment Contracts continued

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 2011	0 4	58 7	3 7	62 8
(Utilised)/Charged during year	0 2	(13 8)	0 2	(13 4)
At 31 December 2011	**0 6**	**44 9**	**3 9**	**49 4**

Society	Vacant Properties £m	Deferred Tax £m	Other £m	Total £m
At 1 January 2011	–	58 7	–	58 7
Utilised during the year (Note 9)	–	(13 8)	–	(13 8)
At 31 December 2011	**–**	**44 9**	**–**	**44 9**

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

	2011 £m	2010 £m
Timing Differences in respect of investment values	**62 8**	82 0
Deferred acquisition costs	**(6 8)**	(5 3)
Other timing differences	**(1 0)**	(2 1)
Discount	**(10 1)**	(15 9)
	44 9	58 7

In determining the provision, the cash flows have been discounted on a pre-tax basis using an appropriate interest rate.

The provision for deferred tax on unrealised gains on linked assets is included in technical provisions for linked liabilities and amounts to £2m (2010 £2 0m)

The Society has an unrecognised deferred tax asset of £38 7m (2010 £31 8m) which is made up predominantly of pension business tax losses that the Society does not expect to be able to utilise in the foreseeable future The tax effect of this asset, if it was recognised, would be £7 7m (2010 £6 4m)

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

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

	Group		Society	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Contract purchase agreements	**6 7**	4 9	**6 7**	4 9
Amounts payable to subsidiary undertakings	**–**	–	**6 1**	4 2
Other creditors	**10 0**	11 1	**5 0**	5 6
Taxation and social security	**4 9**	4 5	**3 2**	3 3
	21 6	20 5	**21 0**	18 0

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

	Group		Society	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Under one year	**1 7**	–	**1 7**	–
In the second to fifth years inclusive	**5 0**	4 9	**5 0**	4 9
	6 7	4 9	**6 7**	4 9

18. Capital Commitments

Commitments authorised or contracted for but for which no provision had been made at the balance sheet date totalled £4 8m (2010 £5 4m)

19. Financial Commitments

At 31 December 2011 the Group had annual commitments under non-cancellable operating leases relating to land and building expiring as follows

	2011 £m	2010 £m
Within two to five years	**0 4**	–
After five years	**0 6**	0 6
	1 0	0 6

Notes to the Accounts continued

20. Investment in Subsidiaries

	Proportion of capital held by the Society %	Society Cost/Value of Investment 2011 £	2010 £
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	**18,500,000**	16,500,000
Wesleyan Administration Services Limited	100 00	**100,000**	100,000
Wesleyan Financial Services Limited	100 00	**58,761,900**	58,761,900
Wesleyan Key Business Finance Limited	100 00	**3,839,197**	4,039,197
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		**82,201,211**	80,401,211
Difference in cost and net asset value		**(48,756,438)**	(47,035,595)
Shares held in subsidiaries – net asset value		**33,444,773**	33,365,616
Current value of the investment in Wesleyan Key Business Finance Limited in excess of its net asset value		**2,460,185**	3,249,144
		35,904,958	36,614,760

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

The cost of the investment in Wesleyan Key Business Finance Limited (including deferred consideration of £2 2m) (2010 £2 4m) was £3 8m (2010 £4 0m) In the Group accounts £3 5m (2010 £2 7m) has been treated as goodwill on consolidation with £0 5m (2010 £0 5m) being amortised resulting in a net figure for goodwill of £2 5m (2010 £3 2m) (see Note 10(d)) These figures of £2 5m (2010 £3 2m) have been added above to the net asset value of the Company to show its current value

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
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 subsidiaries are dormant

21. Contingent Liabilities

The balance sheet of Wesleyan Bank Limited ("the Bank") includes loans to customers amounting to £2 1m (2010 £2 2m), which are secured on life policies taken out with Wesleyan Assurance Society The Society has guaranteed these loans

The Society, by an agreement dated 2 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 The Society has confirmed to the FSA 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 (2010 £0 25m) for an individual or £0 5m (2010 £0 5m) for a joint account in the event that the Bank fails to repay such amounts The total value of these bonds at 31 December 2011 was £14 5m (2010 £15 8m)

Under a Trust Deed approved by HMRC dated 4 April 2006 as amended, the Society has covenanted to accept the ultimate responsibility for the funding of the 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

The Society has guaranteed that any policy held in the Society's Open Fund will repay the mortgage amount it was taken out to cover

22. 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 FSA GENPRU 2 1 30 the Society holds capital of £2 8m (2010 £2 7m) to meet a base capital resources requirement of euros 2 625m (2010 euros 2 625m) in a separately designated interest bearing account

Notes to the Accounts continued

23. 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 2009 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 2011 £m	Value at 31 December 2010 £m	Value at 31 December 2009 £m
Total market value of assets	**373 2**	338 1	294 0
Present value of Scheme liabilities	**(321 4)**	(281 7)	(282 6)
Present value of unfunded liabilities	**(2 9)**	(2 3)	(2 3)
Surplus in Scheme	**48 9**	54 1	9 1
Related deferred tax liability	**(3 5)**	(3 7)	(0 7)
Net pension asset recognised on balance sheet	**45 4**	50 4	8 4

Analysis of surplus

	Year ending 31 December 2011 £m	Year ending 31 December 2010 £m
Surplus in Scheme at beginning of year	**54 1**	9 1
Current service cost	**(4 4)**	(4 4)
Past service cost	**(0 1)**	–
Contributions	**8 0**	23 0
Other finance income	**1 3**	(0 2)
Actuarial (loss)/gain recognised in profit and loss	**(10 0)**	26 6
Surplus in Scheme at end of year (gross)	**48 9**	54 1

Analysis of profit and loss charge

	Year ending 31 December 2011 £m	Year ending 31 December 2010 £m
Current service cost	**(4 4)**	(4 4)
Past service cost	**(0 1)**	–
Recognised in Note 8	**(4 5)**	(4 4)
Interest cost	**(14 9)**	(16 1)
Expected return on assets	**16 2**	15 9
Finance income recognised in Note 4	**1 3**	(0 2)
Total expense recognised in profit and loss	**(3 2)**	(4 6)

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

	Year ending 31 December 2011 £m	Year ending 31 December 2010 £m
Opening defined benefit obligation	284 0	284 9
Current service cost	4 4	4 4
Interest cost	14 9	16 1
Contributions by participants	2 0	2 0
Actuarial losses/(gains) on liabilities*	29 1	(12 1)
Net benefits paid out	(10 2)	(11 3)
Past service cost	0 1	–
Closing defined benefit obligation	324 3	284 0

* Includes changes to the actuarial assumptions

Changes to the fair value of Scheme assets during the year

	Year ending 31 December 2011 £m	Year ending 31 December 2010 £m
Opening fair value of assets	338 1	294 0
Expected return on assets	16 2	15 9
Actuarial gains on assets	19 1	14 5
Contributions by the employer	6 2	5 9
Additional contributions by the employer	1 8	17 1
Contributions by participants	2 0	2 0
Net benefits paid out	(10 2)	(11 3)
Closing fair value of assets	373 2	338 1

Actual return on assets

	Year ending 31 December 2011 £m	Year ending 31 December 2010 £m
Expected return on assets	16 2	15 9
Actuarial gains on assets	19 1	14 5
Actual return on assets	35 3	30 4

23. Pension Schemes continued

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

	Year ending 31 December 2011 £m	Year ending 31 December 2010 £m	Year ending 31 December 2009 £m	Year ending 31 December 2008 £m	Year ending 31 December 2007 £m
Fair value of assets	**373 2**	338 1	294 0	232 1	287 4
Defined benefit obligation	**(324 3)**	(284 0)	(284 9)	(225 8)	(262 8)
Surplus	**48 9**	54 1	9 1	6 3	24 6

	Year ending 31 December 2011 £m	Year ending 31 December 2010 £m	Year ending 31 December 2009 £m	Year ending 31 December 2008 £m	Year ending 31 December 2007 £m
Experience gains/(losses) on assets	**19 1**	14 5	26 8	(68 7)	(7 1)
Experience gains/(losses) on liabilities*	**(3 3)**	14 2	5 6	(1 7)	(7 4)

* 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 2011 (% p a)	31 December 2010 (% p a)	31 December 2009 (% p a)
RPI Inflation	**3 35**	3 50	3 60
CPI Inflation (applicable to deferred members of the final salary scheme from 6 April 2011)	**2 35**	2 70	N/A
Rate of general long-term increase in salaries	**4 35**	4 50	4 60
Pension increases	**3 20**	3 30	3 40
Discount rate for Scheme liabilities	**4 80**	5 30	5 70

Expected return on assets

	Long term rate of return expected at 31 December 2011 (% p a)*	**Value at 31 December 2011 (£m)**	Long term rate of return expected at 31 December 2010 (% p a)*	Value at 31 December 2010 (£m)	Long term rate of return expected at 31 December 2009 (% p a)*	Value at 31 December 2009 (£m)
Equities	**5 60**	**96 9**	6 75	97 7	7 00	146 8
Property	**4 60**	**4 9**	7 00	5 0	7 50	5 2
Government bonds	**3 10**	**151 0**	4 25	161 1	4 50	62 9
Corporate bonds	**4 60**	**93 5**	5 25	48 3	5 25	43 6
Other	**1 80**	**26 9**	1 40	26 0	0 75	35 5
Combined	**4 05**	**373 2**	4 95#	338 1	5 45#	294 0

* 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

The mortality assumptions used for FRS 17 purposes were as follows

Pre-retirement mortality

- 2011 and 2010 – 70% of standard AMC/AFC00 tables

Post-retirement mortality

- 2011 – 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
- 2010 – S1PMA/S1PFA "year of birth" tables, with individual scaling factors, and with the CMI 2010 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

	2011 Years	2010 Years
Male current pensioner	**23**	23
Female current pensioner	**24**	24
Male future pensioner (member currently aged 45)	**26**	26
Female future pensioner (member currently aged 45)	**27**	26

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 2012 (£m)				Approximate effect on Balance Sheet at 31 December 2011 (£m)		
		Service cost	Interest on liabilities	Expected return on assets	Total pension cost	Assets (excluding any restriction)	Liabilities	Surplus
Current figures		5 4	15 5	(14 7)	6 2	373 2	(324 3)	48 9
Following a 0 25% p a decrease in the discount rate[1]	New value	5 9	15 4	(15 0)	6 3	381 7	(340 6)	41 1
Following a 0 25% p a increase in the RPI inflation assumption[2]	New value	5 9	16 2	(14 9)	7 2	379 4	(338 2)	41 2
Following life expectancy increases by 1 year[3]	New value	5 6	16 0	(14 7)	6 9	373 2	(334 6)	38 6

Notes

1 Assuming a 0 25% p a fall in the yields on all government bonds and corporate bonds

2 Assuming a 0 25% p a fall in the yields on all index linked government and corporate bonds

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

4 An equivalent change to the assumptions in the opposite direction will have a broadly similar impact on each component item above but in the opposite direction

5 In assessing the approximate impact of the first two scenarios no allowance for correlations has been made between the different asset classes In practice, changes to bond yields are likely to have an impact on other asset classes

24. 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

25. 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 2011 was £35,825 (2010 £89,758) Claims paid amounted to £106,134 (2010 £13,177) 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 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

Details of pensions payable by the Scheme to three Directors (Messrs Maclean, Rutter and Tyrrell) are included in the Directors' Remuneration Report within the Corporate Governance Statement

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

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Incorporated by Private Act of Parliament (No ZC000145)

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