ANNUAL REPORT AND ACCOUNTS 2017

DELIVERING RESULTS FOR YOU

WESLEYAN

we are all about you

WESLEYAN

WHO WE ARE AND WHAT WE DO

Wesleyan is a financial services mutual that provides specialist advice and solutions to doctors, dentists, teachers and lawyers. We aim to build lifelong relationships with our customers, providing them with products and services at every stage of their life from graduation to retirement and beyond.

We were founded in 1841, over 176 years ago, and have a long and proud history of helping people to manage their finances. We have been a mutual organisation since our inception. The concept of care is at the centre of our mutuality: it's what makes us different and it's why We Care is our core value.

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HOW WE ALL BENEFIT TOGETHER

We Care for our members and customers

As a mutual we don't have shareholders. This means that we can focus on running our business in the long-term interests of our members and customers. As a customer of a mutual, you can expect things to be a little different. We genuinely put you at the heart of everything we do – we are all about you. We work hard to deliver an excellent customer service and if we don't get it right first time we'll make sure we rectify things quickly, efficiently and fairly. That's why 91% of our customers say "Wesleyan makes me feel valued".*

We Care for our people

We want people to enjoy working at Wesleyan. We work hard to foster an inclusive culture that provides opportunities for employees to develop and rewards them for hard work and dedication. We have a comprehensive People Strategy in place that focuses on the development, health and wellbeing of our employees ensuring we remain an Employer of Choice.

We Care for our communities

We have a commitment to the communities in which we and our customers live and work.

In addition to being a leading employer in the West Midlands, we have a UK-wide network of Financial Consultants as well as a presence in Oswestry, New Malden and Northwich. As a company focused on the medical, dental, teaching and legal professions, we are also passionate about these sectors and the communities they serve. It's important to us that we act as responsible corporate citizens because we want to make a positive difference and show We Care.

* Wesleyan customer survey 2017 (scores of 8 and above out of 10); 3,731 respondents.

2017 HIGHLIGHTS

10.4%
Wesleyan With Profits Fund total gross investment return (2016: 16.9%)

£7.6bn
Total assets actively managed or administered by, or on behalf of, the Group (restated 2016: £7.1bn)†

£388m
Gross Premium Income+ grew significantly in 2017 (2016: £323m)

£415,000
paid out to nearly 100 good causes via the Wesleyan Foundation

98%
of personal income protection claims were paid compared to an industry average of 85%*

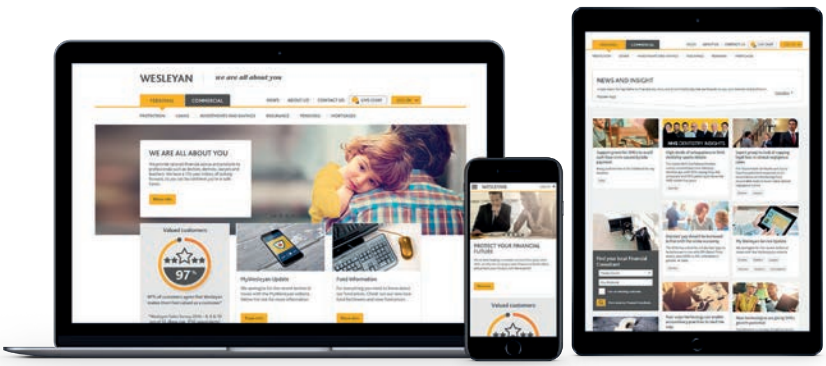
+54
Net Promoter Score (2016: +52). Represents how likely customers are to recommend an organisation. Financial services sector average +15‡

£656m
Group Fund for Future Appropriations which represents our financial strength (2016: £635m)

10 award wins
including:

- Life Company of the Year
- Midlands' Company of the Year
- Active Fund Manager of the Year

See more information online at **www.wesleyan.co.uk**



* Association of British Insurers 2016
† Group assets under management includes the assets of the pension scheme of £0.5m (2016: £0.6m) and WUTM assets under management of £0.2m (2016: £0.1m)
‡ UKCSI report: January 2018
+ Society Premium Income is made up of gross premium income related to insurance and investment contracts

CHAIR'S STATEMENT

Nathan Moss

I was privileged to take up the role of Wesleyan Chair on 1 January 2018 having served on the Board of Directors since July 2017. My initial observations have been very positive and the more I learn about Wesleyan, the more I understand how much we have to offer our members and customers.

I am grateful to my predecessor Bryan Jackson CBE. He left a powerful legacy as he successfully led Wesleyan through some of the most challenging years the industry has faced. We were delighted to name our new Head Office Conference Centre in his honour, a fitting tribute to the invaluable contribution he made to our proud history.

Background

We expected 2017 to be a year of uncertainty, fuelled by the continuing lack of clarity around Brexit and the inauguration of the new President of the USA. In fact, the underlying global economic news was surprisingly good and nearly all major economies grew.

The picture at home was less optimistic with Britain's annual growth the lowest in five years. That said, the UK economy still fared better than expected, supported by strong global performance and a weak pound helping to boost UK exports and manufacturing.

It was a good year for investors as several stock markets reached record highs. With cash savings failing to outstrip inflation and yields on government bonds near all-time lows, we remain committed to our belief that equities offer the best opportunity for long-term returns. This strategy has served us well over the years, delivering competitive returns for customers, particularly those investing in our with profits products. These customers also benefit from smoothing, a feature that helps protect investments against sharp market fluctuations.

Performance

Against this background and other external challenges detailed later in this Report, we are proud to have delivered another strong performance for members and customers in 2017. While Group Operating Profit (post project costs) was lower at £14.6m, mainly reflecting lower expected investment returns, the Group Fund for Future Appropriations (FFA) grew to £656m from £635m, an increase of 3%. We saw strong returns on our investment funds with over half ranking in the top quartile compared to similar funds. Our flagship With Profits Fund delivered a 10.4% return, ahead of our internal benchmark, which will enable us to again deliver competitive payouts for members.

Since joining Wesleyan, I have been particularly impressed by the focus this business places on its customers and their long-term needs. Our customer satisfaction scores are higher than many leading UK brands as evidenced by our Net Promoter Score (NPS) which measures how likely customers are to recommend an organisation. Our score stands at +54 (2016: +52) compared to a financial services industry average of +15*.

We were also pleased to see employee engagement increasing by 9% to 77% in 2017. This reflects our investment in developing and supporting our people, as well as improvements to our working environment. We have more we want to do, particularly towards building a truly representative and inclusive workforce as we recognise that our decision making and customer outcomes will be improved by enhancing our diversity. We made good progress in this area in 2017 and you can read more on page 13.

In line with regulatory requirements, we have published our Gender Pay Gap figures. This is something we have monitored internally for some time as we are committed to progressing more women into senior roles. We have signed up to the Government's Women in Finance Charter and have set clear targets to increase the number of women in senior positions by 2023. You can read more about how we plan to achieve this on our website – **www.wesleyan.co.uk**.

Strategy

We have a clear and defined strategy in place that keeps us on the right path to achieve our vision of being the Best in our Chosen Markets. We are currently in the process of delivering a five year strategic plan that runs until 2020. This is a living document that we review each year at Board level to ensure we remain on track and assess whether any external factors, or other developments, require us to move our focus.

In 2017 we continued to make good progress against our strategic objectives and significant transformation programme. The delivery of our new Customer Relationship Management and Point of Sale systems has been a major project in recent years, requiring significant work across the business. When fully operational, they will transform how we deliver our products and services and provide a more modern and streamlined experience for customers. The Board extends its thanks to the huge number of people who worked tirelessly to get these systems in place.

The new systems provide a strong basis for us to develop our wider digital strategy. This will give customers more choice in how they interact with us and greater support in managing their finances, as well as drive growth and efficiency.

We continue to work towards our ambition to meet the personal, professional and business needs of our customers. We undertook a review of our retirement offering in 2017 and this will now be a key area of focus so that we can fully support our customers through the increasingly complex pensions landscape. Towards the end of the year, we established a new Commercial Business Unit which is now identifying the best way to meet our customers' business needs based on our experience to date.

The Next Stage of our Strategy

In 2017 we made significant progress in considering the strategic direction for the Society beyond 2020. We are working with global consultancy firm McKinsey, carrying out detailed analysis to understand what the future will look like for us, our customers, our industry and the world around us. We want to fully understand our strengths as a business, our opportunities and particular challenges in relation to the markets and the customer segments in which we operate and serve. The outcomes of this work will be presented to

*UKCSI report: January 2018

"We remain firmly committed to maintaining our mutual status which has been an integral part of who we are since we were founded over 176 years ago. With no shareholders to consider, we can truly put the focus on members and customers and work to benefit them."

Nathan Moss
Chair

the Society Board in the first half of 2018 and it will be our job to develop and agree the proposed future strategy.

Risk Management

We have a responsibility to ensure we deliver our strategic objectives within the Society's Risk Appetite framework. We regularly monitor and report against risks facing the business on a short to long-term basis. More information can be found on pages 18 to 21.

In 2017 we appointed our first of Head of Group Security, reflecting our commitment to keep the Society safe from cyber crime and rigorously protect our customer data. Detailed work is under way to ensure that we will comply with the new General Data Protection Regulation (GDPR) by the deadline of 25 May 2018. The Board has been given full oversight of activities with regular briefings.

Mutuality

As part of our strategic work we have been reviewing our brand, purpose and culture and this will be brought to life in 2018. We remain firmly committed to maintaining our mutual status which has been an integral part of who we are since we were founded over 176 years ago. With no shareholders to consider, we can truly put the focus on members and customers and work to benefit them. We were pleased to once again offer over 72,000 policyholders discounts on selected insurance products as part of our ongoing Mutual Benefits programme. In 2018, we will also make an additional bonus payment to qualifying With Profits policyholders.

Our mutuality is the bedrock upon which our culture of care is built and it is embodied in the Wesleyan Foundation, which was launched in May 2017. It aims to provide financial support of up to £1m per year to community groups, charities and good causes close to the hearts of our members, customers and employees. We were pleased to distribute over £415,000 to almost 100 good causes in just over six months, in many cases providing local solutions for local needs. In 2017 we also began working with our new chosen charity, Partnership for Children. Selected by our employees, Partnership for Children are a fantastic organisation who promote the mental health and emotional wellbeing of children in schools across the UK. You can read about our progress on page 16.

Governance and the Board

The Board has continued to operate rigorous control, supported by the activities of its sub-committees. We reviewed progress against the independent review of Board effectiveness carried out by the Institute of Directors in late 2015 and were satisfied with progress made against the small number of issues identified. The next independent review will be undertaken in the second half of 2018.

In line with EU legislative requirements regarding the rotation of auditors, we undertook a tender process to appoint a new external auditor in 2016. Ernst & Young LLP were selected and their appointment was approved by members at the 2017 Annual General Meeting with over 97% of votes cast in favour.

Liz McKenzie, former Chief Operating Officer, stood down from the Board with effect from 31 October 2017 and Bryan Jackson with effect from 31 December 2017. We thank them for their invaluable contribution.

Looking ahead

We are committed to building on the successes of our 176 year history and unleashing the huge amount of potential we have as a business to build a robust strategy for the future that will benefit members and customers.

We are not complacent and recognise that there will be challenges in the year ahead. We operate in a highly competitive talent market and must ensure we continue to attract and retain talented people. Brexit will continue to impact and there are a number of factors that could change customer behaviour. We will continue to monitor all of these developments over 2018 and ensure we are able to respond swiftly to change when necessary.

On behalf of the Board, I would like to thank all of our employees for their work and commitment in 2017 and I look forward to working with them in the year ahead. Thank you also to our members and customers for their ongoing trust in us.

Nathan Moss
Chair
29 March 2018

OUR BUSINESS MODEL

What we do

Wesleyan is a financial services mutual built on over 176 years of experience. In 2005, we adopted a niche market approach and now focus on providing specialist financial advice and services to doctors, dentists, teachers and lawyers. We set out our vision to be the Best in our Chosen Markets in 2005 and this remains unchanged.

To enable us to achieve this vision, we are investing in growing our business in a sustained and managed way. Growth is both organic and through suitable acquisitions. Since 2013 we have acquired four new businesses operating in similar markets – Practice Plan, DPAS, Syscap and Quality Plan. These are now embedded within the Group and we are seeking to maximise the opportunities they bring, particularly the ability to extend our commercial product portfolio.

As we have grown, we have restructured and now have four distinct Business Units. A new Commercial Business Unit is currently being set up to work alongside these to specifically meet clients' commercial finance requirements.

Wesleyan Financial Services (WFS)	Life and Pensions (L&P)	Practice Plan & DPAS	Wesleyan Bank
Includes Wesleyan's teams of specialist financial advisers, as well as general insurance services	Manufactures and manages a range of Wesleyan products and customer policies including savings, protection and investments	Provides practice branded dental membership plans and business support	Provides personal savings and specialist personal and commercial lending products and services

What we provide

We offer a wide range of products to meet the personal, professional and business needs of our core markets. This includes life insurance products, savings and investments, pensions, lending, general insurance and business support services provided by a combination of Wesleyan Group and carefully selected third party providers. Financial advice is at the core of our offering and we have a team of over 300 advisers located across the United Kingdom who provide specialist advice and build strong personal relationships with customers.

Our offer to you

Protection
Income Protection
Professional Expenses
Critical Illness
Whole of life assurance
Term assurance

Investments
Unit Trust
Unit Trust ISA
With Profits ISA
Flexible Savings Plan
Capital Investment Bond
Savings accounts
Cash ISA
Junior ISA

Retirement
Personal pensions
Flexible Access Drawdown
Annuities

Insurance
Home insurance
Motor insurance
Private Clients
Travel insurance
Buy to let insurance

Borrowing
Personal loans
Residential mortgages
Buy to let mortgages

Our offer to businesses

Finance
Partnership loans
Partnership buy outs
Funding – Tax and VAT
Capital Expenditure
Commercial Mortgages
Practice acquisition loans
Practice refurbishment loans
Asset finance

Protection
Locum Insurance
Employee Income Protection
Professional Expenses for practices
Relevant life cover
Key person cover
Loan protection
Share/Partner protection

Insurance
Cyber insurance
Liability insurance
Surgery/office insurance
Buildings insurance
Contents insurance
Employers Liability
Public Liability Cover
Professional Risks

Dental Business Services
Patient Membership plans
Patient finance

Our customers

We work primarily with doctors, dentists, teachers and lawyers and aim to build lifelong relationships. These relationships can start even before a customer begins working and we are particularly active within dental and medical schools, working with young doctors and dentists to support their financial planning.

In recent years, the professions we serve have become increasingly commercialised, for example, the rise of school academies and the increasing presence of large corporate practices within the dental profession. Our acquired businesses have enabled us to extend our business offering and we are committed to growing our commercial customer base.

Our Brand Promise: We are all about you

In an increasingly competitive environment we believe we stand out in a number of ways.

It's not just what we do that's important but also how we do it. We have therefore identified three guiding principles - insight, performance and trust - that help us stay true to our mutual principles.

THE WESLEYAN DIFFERENCE: WE ARE ALL ABOUT YOU

Insight

We really understand our customers and the worlds in which they live and work. We build strong relationships with them and understand what is important at every stage of their career and beyond. We have a research team that analyses changes taking place within the professions and this knowledge is strengthened by input from our Advisory Boards, whose members are specialists in these sectors. All of this means that we can offer our customers relevant and timely advice, products and services.

Performance

Strong financial outcomes for our members and customers are at the core of our strategy. Our capital strength allows us to smooth returns and maintain a higher level of equities in our With Profits Fund than most of our competitors. This allows us to maintain market-leading payouts over the long-term, helping to create a secure financial future for our members.

Trust

Trust is an inherent part of mutuality and a guiding principle for our business. We aim to always do the right thing and to maximise member value wherever we can. The Wesleyan Difference is 'We Are All About You', meaning we care about our customers, our people and the communities we serve.

OUR STRATEGY

A clear vision

Our vision and mission has remained unchanged since 2005 when we strengthened the focus of our business to provide specialist financial services for doctors, dentists, teachers and lawyers. The table below sets out the strategy, which is embedded firmly within our business giving us a clear picture of where we want to be.

VISION – TO BE THE BEST IN OUR CHOSEN MARKETS

MISSION – THROUGH CONTINUOUS IMPROVEMENT

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

UNDERPINNED BY STRONG RISK AND GOVERNANCE

Designed with our members in mind

Everything we do starts with you, our members and customers, and this is how our vision and mission benefits you.

We want to be a **strong and profitable business** to provide you with long-term security and deliver market-leading returns.

Our **customer proposition** is all about you. We want to provide a full range of advice and solutions to meet your financial needs at every stage of your career and into retirement. We are committed to developing our product range to meet your needs, as regulation and government policy develops and as your professional world changes.

We want to be an **employer of choice** because by attracting and retaining the most talented people, we can successfully deliver our strategy and give you what you need from your financial services provider.

How we deliver it

It's not just what we do that's important but also how we do it. Our three guiding principles – insight, performance and trust – help us stay true to our mutual principles. We encapsulate these in our core value of We Care; we care for you – our members and customers, our employees and the communities in which we live and work.

A phased approach

To support the delivery of our overall strategy we take a phased approach to growing the business, prioritising what we need to do to reach our overall vision to be the Best in Our Chosen Markets and to ensure we continue to deliver maximum value to members and customers.

OUR KEY PERFORMANCE INDICATORS

Key Performance Indicator	Explanation		Performance	Further Information
Operating Profit	Operating Profit for the Group represents profit before investment fluctuations and other actuarial, accounting and tax adjustments.		**2017 £14.6m** 2016 £20.8m	Please refer to Results and Performance Section on pages 8 and 9. A lower best estimate investment return on the Society's Estate, competitive pressures impacting short-term profits in Wesleyan Bank and increased investment in infrastructure were the main reasons for operating profit being lower.
Society New Business (Annual Premium Value)	This is used as a measure of new business for Life and Pensions business. It is calculated by adding the total premiums to be received each year for new regular premium policies and 10% of single premiums received in the year.		**2017 £50.0m** 2016 £39.3m	Increases experienced due to strong sales of investment products.
Society Premium Income*	The total premiums received during the year for Life and Pensions business.		**2017 £388m** 2016 £323m	
Assets Under Management**	The total assets actively managed or administered by, or on behalf of, the Group.		**2017 £7.6bn** 2016 £7.1bn	Strong investment returns, along with significant growth in premium income, have increased the Society's assets under management.
Investment Returns	The return earned by our key investment funds including income and capital growth.	With Profits Fund	**2017 10.4%** 2016 16.9%	Following exceptional prior-year performance - our funds were still able to generate healthy returns in 2017. The established bias to growth assets, such as equities and property, in tandem with the active management of the underlying assets, helped our funds to perform competitively in both absolute and relative terms. Additional investment commentary can be found on page 11.
		Life Managed Fund	**2017 8.8%** 2016 16.0%	
		Pension Managed Fund	**2017 10.5%** 2016 18.2%	
Group Fund for Future Appropriations (FFA)	A measure of the Society's financial strength.		**2017 £656m** 2016 £635m	Strong investment returns were also a significant contributor to the increase in the Group Fund for Future Appropriations.
Net Promoter Score	Net Promoter Score (NPS) is a widely recognised predictor of company growth and based on how likely customers are to recommend an organisation. It is worked out by adding the 9 and 10 scores for likelihood to recommend together and subtracting all the 0-6 scores.		**2017 +54** 2016 +52	We remain significantly above the financial services sector average of +15.
Engagement Score	An assessment of how employees feel about working for Wesleyan based on an annual survey.		**2017 77%** 2016 68%	Effective action planning following the 2016 survey supported a rise across all key survey areas.

* Society Premium Income is made up of gross premium income related to insurance and investment contracts.

** Group assets under management includes the assets of the pension scheme of £0.5m (2016: £0.6m) and WUTM assets under management of £0.2m (2016: £0.1m).

OUR PERFORMANCE

Craig Errington

External Environment

The economy fared better in 2017 than many commentators had anticipated in light of the uncertain political situation both at home and abroad. Global Gross Domestic Product (GDP) growth was strong as corporate earnings picked up across the board, inflation remained relatively strong and nearly all major economies grew.

The Office for National Statistics estimated growth in 2017 at 1.7%, down slightly from the 1.9% seen in 2016. It may slow down further over the next two years as consumers spend less due to higher inflation and firms invest less as uncertainty over Brexit continues.

Despite the political uncertainty, the investment markets performed robustly. The increase in global growth and associated increase in corporate earnings meant stock markets continued to rally with several reaching record highs. While volatility in both equity and bond markets is likely to increase in 2018 - and we may see further market corrections - we still believe that equities will go higher over the year, supported in particular by strong US GDP.

Ongoing uncertainty in the economy increases the need for a face-to-face financial advice service and we continue to face competition from other companies who have reverted to the direct sales force model. We are also seeing an increase in the number of people choosing to invest online, particularly those using so called 'robo advice', digital platforms that provide automated, algorithm-driven financial planning services with little to no human intervention.

We continue to operate in a complex and changing financial regulatory landscape. There are several EU-wide changes due to come into force in 2018 including General Data Protection Regulation (GDPR) that will impact how we contact our customers. Our Transformation team is working hard to ensure we remain on top of these regulations and fully compliant, allowing us to successfully manage the changes and minimise impact.

We faced a major challenge in early 2017 when details of the new GP contract for England were announced and included plans for the Government to support the costs of GP locum cover. While we welcomed this as good news for customers, it removed their need for one of our most popular protection products and many were likely to become over-insured. We took proactive action, contacting all impacted customers to assess their position and cancelling or modifying cover where appropriate. These discussions led to additional business opportunities as we demonstrated our unique insight into our customer markets and our credentials as a trusted partner.

We also reduced the price of a number of key products in 2017 to remain competitive with the market and offer best value for our customers. While impacting our profitability, we had no hesitation in doing the right thing for our customers.

Our unique insight into our customers means we can deliver a first-class service built on an understanding of the issues they are facing in their professional lives and how these can impact their financial needs. We work hard to stay on top of the fast-moving changes in the professions we serve. To ensure our understanding is correct, we work with Advisory Boards, made up of highly talented doctors, dentists, teachers and lawyers who support and develop our thinking and provide a perspective from the front line.

Some of the key issues affecting our customers at the moment include:

- NHS services being impacted by recruitment, retention and funding issues at a time of radically increased demand;
- Continued growth in private provision in the dental market and an increase in the number of smaller corporate businesses;
- Increasing pressure on legal firms to offer more services on a fixed fee basis, leading to competitive pricing packages and potentially declining fees for some firms;
- Increasing levels of mental health issues being reported across the professions with teachers' unions warning of an epidemic of stress;
- Changes to the Lifetime and Annual Allowance, restricting how much can be saved into pension funds tax-free;
- Student debt in England continuing to rise as tuition fees and student loan interest rates are increasing.

We continue to monitor and enhance our understanding of how these and other issues will impact our customers. This allows us to adapt and develop our offering so that we can continue to provide relevant advice and solutions to meet their personal, professional and business needs. It also enables us to keep the customer at the very core of our business.

Results and Performance

Despite the uncertain environment in which we and other businesses operated within in 2017 and the additional challenges we faced, as outlined above, we are pleased to report that Wesleyan enjoyed another successful year. In order to present an understanding of the underlying operating performance of the Group, the Board monitors performance through Group Operating Profit. This includes:

- Operating Profit for Life and Pensions new business sales, calculated as the present value of future profits. Added to new business profit is a reflection of certain items of experience on the Society's in-force book over the year, for example the impact of lapses and sickness claims;
- Operating Profit for each of the subsidiary companies:
  - Wesleyan Financial Services, including the General Insurance broking operation;
  - Wesleyan Bank;
  - Practice Plan and DPAS; and
  - Wesleyan Unit Trust Managers (WUTM);
- Group costs;
- the (short-term) best estimate investment return on the Society's estate; and
- project costs incurred by the Society over the year.

The table (below) reconciles the Group Operating Profit contribution to the transfer to the Fund for Future Appropriations (FFA). The FFA represents the excess of our assets over liabilities and is a measure of our financial strength. Group Operating Profit reflects the underlying performance of the Business Units. The impact of investment fluctuations, actuarial modelling and assumption changes, the actuarially calculated costs of providing guarantees on with profits business and certain other items are excluded from the calculation of Group Operating Profit.

"Our unique insight into our customers means we can deliver a first-class service built on an understanding of their professional lives"

Craig Errington
Group Chief Executive

Group Operating profit before project costs was £26.6m and £14.6m after project costs. We have been investing significantly in our IT infrastructure and developing new technology, with a further investment of £35.7m in 2017 (including £23.7m for new computer software as shown on page 95). This includes the introduction of the new Customer Relationship Management and Point of Sale systems which will allow us to deliver a much improved customer service and drive growth and efficiency. The development and installation of these new systems is one of the most complex programmes we have ever undertaken and, while we had had hoped to deliver them in 2017, the launch was delayed. We are also in the process of migrating historic business onto new IT platforms to strengthen our infrastructure and reduce risk.

Our investments team delivered strong returns with over 75% of funds ranking in the top half for performance compared to similar competitor funds. Our flagship With Profits fund returned 10.4% for the year, 0.95% ahead of the model portfolio we use to monitor our performance and Total Assets under Management are now £7.6bn.

Our core Life and Pensions business saw new business Annual Premium Value (APV) increase by 27% and policy count by 23% year-on-year, an excellent outcome in a challenging year. Total Premium Income has increased 22% year-on-year.

Our dental patient membership businesses – Practice Plan and DPAS – saw customer numbers grow by 4.3% to 960,000 with an operating profit of £6.7m. The consolidation of the two businesses to a single site will bring greater collaboration, supporting best practice and future cost reduction.

Wesleyan Bank experienced margin pressure on short-term unsecured lending, which impacted short-term profits. Despite this, its balance sheet grew by 18% with a greater mix of long-term secured loan products.

Looking ahead we foresee some market volatility and most economic experts predict a lower growth rate for the UK compared to other markets primarily as a result of Brexit negotiations. With this in mind, we are reviewing and assessing our geographical asset mix so that our investment portfolio remains strong and we can continue to provide competitive returns and payouts for members and customers.

Group Operating Profit Reconciliation	2017 £m		2016 £m	
Group Operating Profit (pre project costs)		**26.6**		**31.6**
Project costs	**(12.0)**		**(10.8)**	
Group Operating Profit (post project costs)		**14.6**		**20.8**
Adjusting for the following items:				
Short-term Income and Cost Variances				
Investment Returns	85.2		86.5	
Changes to assumptions about future experience	23.4		88.6	
Contributions to employees pension scheme	–		(2.9)	
Other (including tax)	(17.3)		(32.1)	
		91.3		140.1
Benefits to Policyholders				
Cost of providing new business guarantees	(3.2)		(3.5)	
Cost of providing guarantees on existing business	19.5		(8.5)	
Mutuality, Membership and Charity	(11.3)		(0.4)	
Transfer to policyholders	(83.1)		(95.3)	
		(78.1)		(107.7)
Movement in Internal Available Capital		**27.8**		**53.2**
Statutory Accounting Adjustments		(6.9)		(20.7)
Transfer to/(from) the FFA		**20.9**		**32.5**

"Other (including tax)" mostly reflects tax paid and changes in reserves for tax in the year.

"Transfer to policyholders" reflects the value of profit made in the year allocated to with profits policyholders.

OUR PERFORMANCE

Business Unit Reports

Wesleyan Financial Services (WFS)

Alan Jones
Managing Director WFS

WFS continued its focus on delivering a first class financial planning service to our clients in 2017. We aim to develop compelling long-term relationships with clients so that we can support them with their financial planning at every stage of their career and into retirement.

In 2017 we met with over 65,000 clients, including many new customers and it was encouraging to see that 91% of customers rated their overall experience with us as very good or excellent*.

We continue to look for ways to further improve our service and in 2017 introduced a new planning tool to help clients think more clearly about their long-term financial aims, allowing their Financial Consultant (FC) to put in place the most appropriate plans.

We are excited about the benefits that the new Customer Relationship Management and Point of Sale systems will provide when fully operational. These systems will be invaluable tools in supporting our growth as they will allow FCs to see more clients and deliver an even more professional, efficient service.

Our Area Managers remain a key factor in the successful delivery of our long-term strategy and their work has played a part in keeping employee engagement high. In 2017 we were pleased to see engagement increase by 7% to 76%. We also saw a marked reduction in the number of FCs leaving the business, with attrition falling despite a buoyant job market.

The most significant challenge we faced in the year was the change in the NHS GP contract, mentioned earlier in this Report. We took proactive action, using this change as an opportunity to contact GP clients and review their financial needs. This led to over 90% of surgeries retaining their existing cover, usually with some modifications and our FCs providing expert, specialist financial advice to 220 new surgeries.

Our General Insurance business provides a range of personal and commercial services and products including a Private Clients service for professionals who need higher levels of cover or have more complex insurance needs. 2017 was a good year as we moved the focus of our business to lower volume, higher value products. We were therefore pleased to see our book of commercial business grow by 4% and Private Clients business grow by 6%, with a significant increase in the number of new policies sold compared to 2016. We also saw strong renewals activity across the business with over 30,000 clients choosing to stay with Wesleyan.

We worked well with our colleagues across the Wesleyan Group over the year to ensure clients had access to the full range of our products and services and this will continue to be a key focus in 2018.

*Wesleyan Sales Survey 2017 (8 out of 10. Base size: 1,690)

Life and Pensions

Clive Bridge
Managing Director Life and Pensions

2017 was a successful year for Life and Pensions despite some significant challenges. Sales of investment products were buoyant as customers were attracted by the market-leading performance of our With Profits Fund. Our unit trust funds under management also saw a 22% growth with customers taking advantage of the increased choice provided by the new range of funds launched in 2016.

The reduced need for separate Group Locum Protection, as previously mentioned, impacted our income. However, we were able to demonstrate the value of our specialism in the medical markets by proactively contacting customers to help them optimise the benefits of the change.

As a mutual, we are driven by the desire to keep our customers at the core of everything we do. In 2017 we made a number of changes to improve competitiveness and simplify our pricing. This included price cuts to income protection products for both doctors and dentists and the removal of initial charges on With Profits ISA and unit trust products.

We also maintained our strong claims record paying out on 97.8% of all personal income protection claims made compared to an industry average of 84.8%†.

We continued to invest in developing our people and more than half of employees now have a recognised customer service qualification with many improving their product and technical knowledge over the year. In parallel, we have seen a continued increase in customer satisfaction ratings from our already high levels in 2016.

Plans to strengthen our IT infrastructure continue to progress and, in particular, the migration of various books of legacy (historic) business onto a new system. This has been a complex project taking place over a number of years. We were delighted to pass a major milestone in October when we migrated the first part of one of our larger legacy systems. This process will be fully complete in 2018 and will ensure a smoother customer experience and a more cost-effective operation.

As well as positive customer feedback, it was also pleasing to receive external recognition including being named Life Company of the Year at the MoneyAge awards. The judges said they were impressed with the way we have shown a true understanding of the life insurance industry through our product offering and our deep understanding of the varying needs of our customers.

† Association of British Insurers 2016

Wesleyan Bank

Steve Deutsch
Chief Executive Wesleyan Bank

The Bank had a challenging year as competition both drove down rates and reduced our opportunity on some short and medium-term products, particularly asset finance, which impacted profits. However, we saw strong growth in sales of our longer-term secured loan products in line with our aim to build a long-term, stable balance sheet. Overall, this led to an 18% growth in the balance sheet and we expect further growth through 2018 and beyond.

We continued to integrate Syscap, our asset finance business acquired in 2015, into the Bank enabling us to provide customers with a more comprehensive portfolio of retail and commercial lending products and services, tailored to their business requirements. At the start of 2018 we merged both brands under the Wesleyan Bank name.

As part of a mutual, we are committed to delivering good customer outcomes and once again the Bank experienced great customer satisfaction scores, which are well above the industry average.

We were pleased to receive external recognition for our work once again this year winning Vendor Specialist of the Year at the Leasing World Awards. We reached the final stages in another four award competitions.

With strong foundations now in place, we expect to see good progress in growing our balance sheet and profitability in 2018 and beyond as we push on with our strategy of building a specialist commercial bank that puts customers first.

Practice Plan and DPAS

Andrew D'Arcy
Managing Director Practice Plan and DPAS

Practice Plan and DPAS together are the largest providers of practice branded dental membership plans in the UK. Strong patient growth in 2017 saw the number of patients subscribing to plans grow by 4.3% to 960,000.

We believe that there will be an increased demand for our services once the reform to the NHS Dental contract is implemented. In the meantime, we continue to pursue our strategy of organic growth, considering suitable acquisitions that provide the right strategic fit.

In July, we completed the acquisition of Quality Plan, a Dental Plan provider based in Northern Ireland that has a strong alignment with our other dental plan businesses.

In early 2017, we completed the relocation of the DPAS customer services and IT teams to Oswestry. The move was completed with minimal customer disruption and we were pleased to maintain our excellent customer feedback. Practice Plan also continued to rate highly with its customers, receiving an industry leading customer satisfaction score.

We have continued to develop our customer offering and held a number of training events and seminars to help clients with their business development needs. These have been well received and the programme will continue in 2018. We also developed our digital services with Practice Plan piloting an online application process for dental plan sign-up. This will be rolled out further in the coming months.

Medenta, the arm of our business that provides patient finance support, continued to perform well in 2017. We have recruited a new Business Development team whose initial focus has been on key account reviews. This has been well received by clients.

We enter 2018 with a stronger business ready to meet the challenges that changing regulation and competition will bring. We will continue to pursue organic growth, building on the strength of relationships we have with dentists and providing added value and excellent customer service to our clients.

Investments

Robert Vaudry
Managing Director Investments

I joined Wesleyan in February 2017 and would like to start by paying tribute to my predecessor, Clive Ward, who retired last year after over 30 years with Wesleyan. Clive handed over an outstanding Investments Team and I am most grateful to him.

Despite a number of political upheavals around the world during 2017, the underlying economic data was generally better than expected, driving several equity indices to new record highs. As a result, our established strategic approach to remain overweight in equities, despite the political uncertainty, has worked out well for our investors as our funds delivered a strong performance. At the end of the year, 56% of Wesleyan funds were ranked among the top 25% (top quartile) in their peer group and 78% were in the top half.

OUR PERFORMANCE

Investments

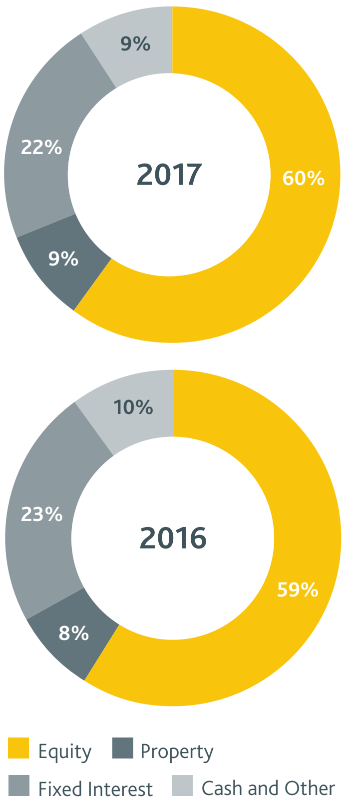
In addition, our With Profits Fund was rated top for investment return in 2016 in a review of 46 funds by Barnett Waddingham, a major independent provider of actuarial, administration and consultancy services, released in 2017.

These results are testament to the skill and experience we have in our fund management team and we were pleased to see this recognised externally when we were named Active Fund Manager of the Year at the Insurance Asset Management Awards.

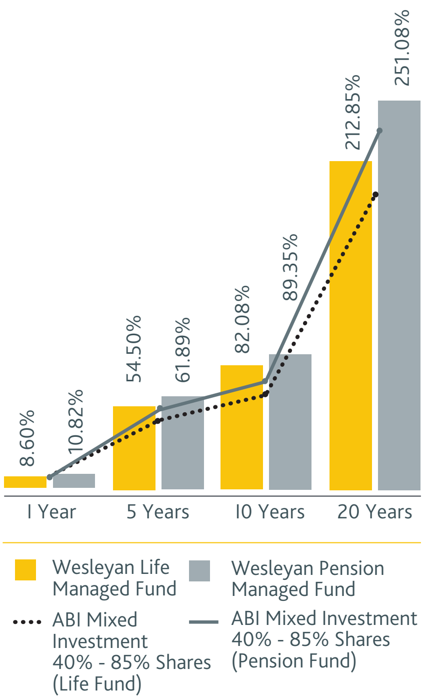
We remain committed to our "buy and hold" investment strategy, with an emphasis on the long-term. Successful stock picking is at the heart of what we do and we have a natural bias towards income rather than growth stocks. Our team of Fund Managers are particularly adept at managing multi-asset funds.

In addition, our dedicated Property Team once again produced some great results in 2017. They have built up an extensive property portfolio of diversified, mainly high quality, assets and make an invaluable contribution to the performance of various funds.

Investment Mix — With Profits Fund (as at 31 December)

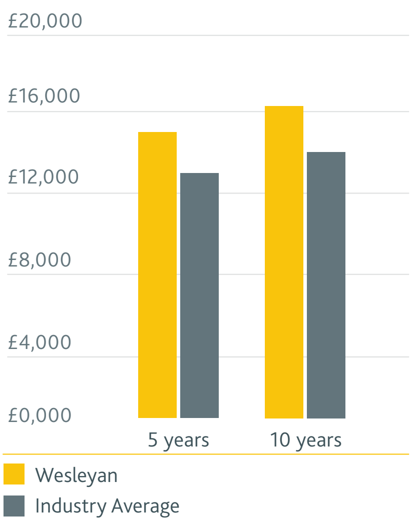


1997-2017 Cumulative Performance of Life and Pension Managed Funds*



*Data used for the 20 year performance figures is 31/12/1997 to 29/12/2017

With Profits Bonds



Source: Money Management January 2018
Surrender value for With Profits Bonds with investment of £10,000 as at 01/11/2017

Financial Strength

Maintaining financial strength continues to be one of the core pillars of our strategy. We believe that equities and property continue to provide the best return for policyholders over the long-term and we manage our financial strength so that we can continue to support a higher than average exposure to these asset classes.

Our regulatory capital position is reported under the Solvency II regime. Our solvency ratio, which is a measure of financial strength, was 350% as at 31 December 2017, an increase from 317% in 2016. Group Fund for Future Appropriations, another measure of financial strength, stands at £656m and grew from £635m in the prior year.

The Society manages its capital to a much higher level than the minimum required. This financial strength, along with enhanced risk management, ensures we are able to grow the business without exposing policyholders to undue risk.

Employer of Choice

We recognise that our people are integral to the successful delivery of our strategy and to ensuring we can continue to meet the high expectations of our members and customers. We remain focused on recruiting, developing and retaining an engaged workforce which is sustainable and scalable in order to achieve our strategic ambitions.

In 2017 we enhanced our Employee Opinion Survey to better gauge how our people are feeling at work. We were pleased to see a 9% increase in engagement levels, rising to 77% from 68% in 2016. More employees also completed the survey.

We are creating a smarter, more flexible working environment that is more reflective of our brand and culture. In 2017, we opened up a number of new spaces in our Head Office building to support collaboration, including a roof-top garden and a new conference suite named in honour of our retired chair Bryan Jackson.

We are proud that our apprenticeship and mentoring schemes were recognised at the Birmingham Post Business Awards where we picked up the Contribution to the Community award. In addition, we received the highest level of accreditation from the National Skills Academy for Financial Services for our Training and Development programme.

We want to build a healthy, inclusive and agile workforce of diverse people because we believe that this will lead to better decision making and better outcomes for our members and customers. In 2017 we made good progress driving forwards our strategy to support this, including establishing a number of internal networking groups and rolling out training to all employees to make them more alert to unconscious bias and the impact it can have.

In 2018 we will continue to develop our employee value proposition and ensure we have a fair and transparent culture that is performance led. We will also ensure our people are ready for and resilient to change so that we can innovate and adapt with ease to meet external challenges and future opportunities.

Future Developments

We are entering the final stages of our current strategic plan which runs until 2020 and have made good progress in assessing how we want our future to look. We remain committed to our professional customer markets and to our mutual status. We will build on our past history and experience to create a robust strategy that will create future growth and benefit our members and customers.

In early 2018 we appointed a Chief Information Officer, a new Executive level role, to lead our IT and Transformation work, which continues to be of critical importance to customers and the business. This reflects our ambitious plans to develop our digital offering to meet customer demand and make it easier for them to interact and do business with us both online and face-to-face. Fully embedding our new Customer Relationship Management and Point of Sale systems is key to this.

We will continue to develop the products and services we offer so that we can meet the current and future demands of customers. A key focus will be strengthening both our retirement and commercial services so that we can offer customers a more complete personal and business financial experience.

We are fully committed to driving more diverse thinking, creativity and innovation throughout Wesleyan. In addition to wanting to benefit from the better decisions that a diverse workforce can give us, we want to be more reflective of the communities in which we work and the make-up of our customers.

We know that our plans must be flexible so that we can adapt to changing circumstances as political uncertainty continues to dominate our industry and the wider economy. Our professional customers are also seeing fast-moving change in their professional lives, as well as being impacted by wider economic issues. We'll continue to work closely with our Advisory Boards to stay abreast of the challenges customers are facing and ensure our products and services stay relevant to their changing needs.

We continue to face ongoing regulatory change and will ensure that we remain compliant and provide the best outcomes for customers.

A key focus for 2018 will be agreeing the next stage of our strategic development for beyond 2020. We must ensure we build on our successes to date to build a stronger business while maintaining our competitive advantage and ensuring long-term sustainability so that we can deliver the best service and outcomes for members and customers.

OUR CUSTOMERS
CASE STUDY

Sonu Thomas

Dentist Sonu Thomas and his wife Rose, are experienced dental practitioners based in Blackpool. They have been Wesleyan customers since 2010. As the Group has grown, they have taken advantage of new services available to support their business, as well as their personal financial planning.

Here's Sonu's story:

"Our first experience of Wesleyan was through a Financial Consultant (FC) who helped us to decide on the best investment and savings options, as well as home insurance.

"When we decided to buy our own dental practice, our FC put us in touch with Wesleyan Bank to discuss how we could finance the acquisition.

"The difference in service quality from Wesleyan was very apparent compared to the high street lender I contacted previously. It was clear that Wesleyan could offer a more value-added service which felt like a genuine partnership."

Wesleyan Bank was able to provide an appropriate long-term loan to enable Sonu and Rose to purchase Thomas & Thomas Dental Associates, as joint owners.

"Purchasing a dental practice can be a complicated process but Wesleyan Bank made it as simple as possible, keeping us fully informed from start to finish. As a specialist finance provider for dentists, they are experienced in overcoming challenges and ensured the purchase of the practice remained on track."

Having found a provider they can trust, the Thomases have now arranged their life insurance and building insurance cover through their FC and Wesleyan Bank has provided an unsecured loan facility to enable them to modernise the practice.

"Wesleyan offers us a trusted and single source for all of our personal and professional financial needs. It's reassuring to know that everything is in one place and that we can rely on their specialist knowledge. We would definitely recommend them to other dental professionals."

Dr Sonu Thomas

OUR CUSTOMERS
CASE STUDY

Dr Richard Melton

Dr Richard Melton is a retired GP from Warwickshire. He has been a Wesleyan customer since 1983. After developing a degenerative disc disease in his neck, Richard was unable to continue working and retired early on medical grounds aged 55.

Since finishing work in September 2011, Richard has used his Wesleyan Personal Income Protection Plan to provide an income.

"The Wesleyan Income Protection Plan has allowed me to maintain my lifestyle despite having to retire through ill health. My Financial Consultant has added value at all times throughout the process and it's felt like a partnership. I have already recommended Wesleyan to other medical professionals."
Dr Richard Melton

Here's Richard's story:

"As a GP, the NHS provides a certain amount of protection but doesn't cover private income. I wanted to protect my finances in the event of the unexpected so I opened a Wesleyan Income Protection Plan in 1983.

"Around July 2006, I developed degenerative disc disease in my neck, meaning eventually I was unable to work. I retired on grounds of ill health and claimed on my Wesleyan Income Protection Plan to cover the salary I lost by not being able to practise.

"My Wesleyan Financial Consultant, Neil, has provided honest financial advice for the past 12 years. He's offered guidance and has ensured I pay premiums appropriate to my income, which means I've avoided having to overpay for unnecessary cover.

"It's this sort of honest financial advice which has been so valuable. Over the years, Neil has been able to really get to grips with my financial situation and has advised accordingly. He's walked me through different outcomes for each financial decision and has added value at all times."

Having found a provider he could trust, Richard opened a private pension with Wesleyan in 1998.

OUR CORPORATE RESPONSIBILITY

As a mutual we are committed to doing the right thing for our members, customers, employees and for the communities in which we all live and work. We are proud to be a responsible business and aspire to deliver against our value of We Care every day.

2017 marked a step change in our Corporate Responsibility (CR) activity as we moved away from large-scale fundraising projects and increased the focus on delivering sustainable support.

Fundraising

The year began on a high with the opening of Magnolia House – the culmination of our four-year fundraising partnership with Birmingham Children's Hospital. We were proud to play an integral role at the official opening of this unique building that provides families with a private space at times when they most need it.

Having raised over £1m for Birmingham Children's Hospital over the course of our partnership, we decided to focus our fundraising efforts in a different direction in 2017, choosing a smaller charity where our support can make a huge difference.

We were introduced to Partnership for Children by one of our customers and immediately felt it was a cause we wanted to support. Partnership for Children is a national charity that promotes the mental health and emotional wellbeing of children in schools across the UK. It teaches techniques to help youngsters cope with difficult situations such as bereavement, bullying or divorce, providing skills they can take into adulthood.

Partnership for Children, our chosen charity

The relationship has got off to a flying start. Not only have we hit our £25,000 fundraising target, we have also been able to help Partnership for Children launch their services into Scottish schools for the first time, thanks to our funding and contacts in Scotland's education sector.

Working with this small charity over the next two years means that the money we raise will have a significant impact and greatly increase the work carried out in schools.

"Funding in the voluntary sector has reduced dramatically in recent years so it's fantastic that Wesleyan is now providing financial support on this scale."

Tina Costello,
Heart of England Community Foundation

Volunteering

We launched employee volunteering days in 2017, offering each member of staff a day's additional leave to offer practical support to a charity or good cause that they are passionate about. We've been delighted with the enthusiasm our employees have shown, embracing the volunteering opportunity both individually and in teams, with over 2,000 hours' support given to a range of organisations – from schools to homelessness charities.

Wesleyan Foundation

The Wesleyan Foundation was officially launched at our 2017 Annual General Meeting (AGM) to provide financial support to grass roots, volunteer and community led projects that make a real difference. By the end of the year, the Foundation had distributed more than £415,000 to nearly 100 good causes providing local solutions for local needs.

The Foundation is administered by the Heart of England Community Foundation. Its Chief Executive Tina Costello says:

"Funding in the voluntary sector has reduced dramatically in recent years so it's fantastic that Wesleyan is now providing financial support on this scale."

In 2018 we aim to distribute up to £1m in funding to support charities and community groups involved in the promotion and/or development of education, health, innovation and social development.

We will continue to ask our members and customers to get involved in deciding how we allocate our larger grants via quarterly votes and invite you to nominate causes that could benefit from Foundation funding.

You can read more on page 23 about how the Wesleyan Foundation has made a real difference to one youth homelessness charity.

Wesleyan Foundation grant recipients 'Sunshine and Smiles'

Skills Development

We have been an integral part of the West Midlands business community for 176 years and we are passionate about developing young talent in the region. Our apprenticeship programme was one of the first in financial services and, since it began in 2010, we have welcomed more than 50 young apprentices to Wesleyan. 2017 saw a further nine new recruits join the scheme.

We also mentor students at Greater Birmingham Professional Services Academy, providing guidance to students on skills that are essential to securing and thriving in employment.

Environment

We take our environmental obligations seriously and continue to look for ways to be greener. In 2017, 100% of our Head Office waste was diverted from landfill – with 90% sorted and recycled and the remaining waste used as Refuse Derived Fuel.

We made a commitment to plant trees in countries most impacted by deforestation to offset the impact of our paper consumption. So far we have planted 368 trees in Madagascar, the Dominican Republic and Brazil. We also reused 69% of our printer cartridges and recycled the remainder.

We've extended the introduction of LED lighting to areas within our Head Office and in 2017 made savings in electricity, gas and water consumption.

> "In what can be a cynical corporate world at times, it is refreshing to see Wesleyan's charitable work… and to know it is recruiting for the next generation through its apprenticeship and mentoring programmes."
>
> **Marc Reeves, Birmingham Post Editor**

We also capped our fleet emissions to 130gm of CO_2 and recycled over 250kg of batteries.

Other CR Activities

- Nine of our people took part in the Velo Birmingham challenge, successfully cycling 100 miles and raising over £12,600 for Partnership for Children.
- In line with our focus on more sustainable giving, we have appointed a new stationery provider that gives all of its profits to charity. Working in partnership with the WildHearts Group, we will be converting essential office overheads into social investments transforming lives both at home and abroad.
- We are proud to be patrons of LoveBrum, a Birmingham charity that engages with and supports local people and businesses to build an even better Birmingham. In 2017 we supported the 'Bags for Brummies' event, donating essential items to fill over 70 bags that were then distributed to the homeless community in December.
- Wesleyan recognises the importance of the Modern Slavery Act 2015 and is committed to acting ethically in all business dealings. Our full Slavery and Human Trafficking Statement can be found on our website.

Wesleyan's Velo riders

MANAGING OUR RISKS

Risk Appetite

The Society's risk appetite is the amount of risk that we are prepared to accept in pursuit of our business objectives. Any new risk exposure or change to any existing risk exposure is considered in light of this risk appetite before being accepted.

Our risk appetite is set by the Board and reviewed at least annually. It is summarised below:

"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, are able to meet our financial obligations as they fall due."

Our risk appetite is further broken down into the following four key elements: reputation, capital, business and conduct. The Board regularly reviews and monitors the actual risk profile and risk limits against the approved risk appetite.

Element	Risk Appetite
Reputation	We recognise that our long-term sustainability depends on the strength of our reputation and relationship with our customers. Therefore, we have minimal appetite for material reputational risks and we will always treat our customers fairly and act with integrity.
Capital	We will ensure that we remain financially strong in line with our vision statement and consistent with our communications to policyholders.
Business	The Society seeks to monitor and react to external developments to ensure that it maintains/improves its low to moderate business risk profile over the longer term. This includes: ▶ Regular and effective processes for business risk identification, strategic planning and business risk management; ▶ Testing of resilience to risk events (what if scenarios). The Society seeks to maintain sufficient resilience against business risk. This includes resilience to impact on: ▶ Customer outcome; ▶ Long-term financial and operational performance.
Conduct	We will seek to ensure at all times that our behaviour results in fair outcomes for customers.

Principal Risks and Uncertainties

Accepting risk is fundamental to the delivery of the Society's strategic objectives, including the delivery of attractive returns for its policyholders. With Profits policyholders are also impacted by the profits or losses from a range of business activities, including from non-profit business and the Society's subsidiary companies.

In addition to the four key elements detailed above, the Society closely monitors its Market, Insurance, Liquidity, Credit and Operational risks.

The Society recognises that in a fast-moving and challenging external world, our strategy may need to change to respond to developments in our operating environment and the Board therefore regularly reviews the Society's long-term strategic plans. In developing and monitoring strategy, the Board's priority is to ensure that strategic initiatives do not compromise the future financial strength or reputation of the Society or its ability to provide fair outcomes for our customers.

The Society has a Risk Management Framework in place based on a three lines of defence approach (see representation below), which includes governance structures and processes to identify, manage and monitor risks actively. Further details of the framework, and the Society's approach to risk management is set out on pages 75 to 84. Robust risk management is also embedded within the culture of the Society. The effectiveness of risk management and internal control systems is reviewed at least annually, including reviews undertaken by Internal Audit, the scope of which are aligned to the key risks of the Society. The table overleaf is a summary of the principal risks and uncertainties facing the Society and whether these risks have increased, decreased or remained the same in 2017. Full details of these, and actions taken to manage and mitigate them, can be found on the Society's website at the following address: **www.wesleyan.co.uk/report**.

MANAGING OUR RISKS
continued

Principal Risk and Uncertainty
The performance of investment markets and shifts in economic conditions affect the returns generated for policyholders and our financial strength.
Changes in interest rates have an effect on the calculation of the Society's assets and liabilities, potentially impacting our financial strength.
A major and prolonged economic downturn and/or stock market crash could lead to a failure to meet targets and to a significant under-performance of our business plan.
We are exposed to the risk of failure or default of one or more counterparties, including major banks and reinsurers.
There is an inherent risk that our people may not have the appropriate skills and support to deliver ongoing activities as well as maintain compliance.
We operate in a market where the expectations of our customers are changing rapidly. Therefore, the risk exists that our business model does not adapt quickly enough to these changes.
The pace and scale of regulatory changes impact the Society's strategy, profitability and capital position. Therefore, the risk exists that we do not respond adequately or quickly enough to these changes.
As we develop our digital channels and increase our online presence, cyber security is set to become a more prominent business risk.
The Society's business involves the underwriting of risks where the ultimate liability is dependent on long-term factors such as the rates of mortality, morbidity (i.e. sickness), persistency (the proportion of policies that remain in force) and our expenses.
Despite our prudent approach when determining our capital requirements, unexpected events could take place which lead to losses, for example an increase in life expectancy.
Internal change programmes are under way to improve our capabilities and the experience of our customers. Therefore the risk is present that these programmes do not deliver the expected benefits.
There is a risk that the regulator's view on how firms charge for advice may change, and they may challenge the charging model we have adopted.
The Society is exposed to the risk that unsuitable financial advice might be given by its Financial Consultants.
Through acquisition of other businesses, the Society is exposed to the risk that this acquisition activity does not realise the anticipated benefits for the business or our policyholders.

Key: ↑ Increased risk ↓ Decreased risk → No change

Risk Trend in 2017	Risk Mitigation and Management
→	Various policies and procedures are in place to ensure that our investment funds are managed in line with risk appetite, including the need to balance risk and return.
↓	Investment conditions and outlook are monitored closely by Executive and Board Committees and further mitigating action is taken where necessary.
→	We monitor the achievement of our business plan closely through our governance structures so that any mitigating actions required are taken in a timely way.
→	We manage counterparty risk in line with risk appetite by setting limits on the amounts that may be invested with any single counterparty and the amount of risk exposure to individual reinsurers.
→	Our HR policy and procedures are designed to ensure that our people have the appropriate skills and support. Robust recruitment procedures apply to ensure new appointments are suitable for their roles.
↑	We monitor closely any changes affecting our target market as part of our strategic and business planning process, so that mitigating actions can be identified and taken in a timely way.
→	We monitor and evaluate the impact of legislative and regulatory changes. All major regulatory and legislative change activities are organised via projects, utilising a strong project management approach.
↑	We have invested in a variety of tools to help protect our IT infrastructure and continue to enhance our approach to cyber security, including how we are positioned to prepare for, detect and respond to the increased sophistication of cyber attacks.
→	We have extensive experience and expertise to assess and set our price for known risks.
→	We regularly review the experience against our assumptions and we also hold a prudent amount of capital to ensure that we are able to meet our liabilities and obligations.
↑	We have an agreed project life cycle which sets out the project delivery framework. Each major project has a business case agreed by the Board setting out the long-term financial benefit to customers.
→	We closely monitor regulatory developments and we review our distribution model if necessary to ensure that it remains in line with what our customers and the regulator expect.
→	All of our Financial Consultants are qualified to the required standard and are regularly assessed and monitored.
→	We have an established governance structure for assessing and implementing acquisitions, drawing on external assistance for due diligence as appropriate.

VIABILITY STATEMENT

The Society's Board of Directors has carefully assessed the long-term prospects of the business taking into account our current position, the main risks faced and the measures in place to monitor and manage these risks.

The Board believes there is a reasonable expectation that the Society will continue to operate successfully and meet its liabilities as they fall due over the current five year strategic planning period. This expectation is based on a thorough understanding and analysis of our long-term risks and the associated stringent risk management processes.

Identifying and managing the impact of risk

We identify and monitor risks to ensure that our business aims and customer objectives can be met. Where possible, the risks are given a monetary value (quantifiable risks), for example equity market volatility. The potential capital impact of these risks is determined through actuarial modelling. Where a direct monetary value cannot be applied (non-quantifiable risks), for example a cyber attack on our systems, the impact is assessed and monitored through an established qualitative process.

A reporting process is in place to monitor our risk profile and ensure we stay within our agreed risk appetite. This is reviewed monthly by the Group Executive and at each meeting of the Risk Committee. The most significant risks to the Society, along with an overview of the framework in place to manage them, are set out on pages 18 to 21 of this Report.

Everyone in our business has a responsibility for managing risk. On a formal level, line managers are accountable for risk management in their own business areas. They are supported by the Risk and Regulatory team, while the Corporate Audit team acts as a third line of defence assessing how effectively risk is being managed and identifying and tracking any mitigating actions.

Our appetite for risk

As a business, we accept risk to deliver our strategic objectives and recognise the need to balance risk and reward. A key tool in helping to achieve this is the Own Risk and Solvency Assessment (ORSA). This is an annual process where we look at the year ahead and ensure that all of the risks to which we might be exposed are identified, measured, monitored, managed and reported. This also supports capital planning and strategic business planning.

Our Internal Capital requirements are established as part of the ORSA process. These are defined as the capital required to stay within our capital risk appetite, both now and across the five year business planning period. We set this at a much higher level than the minimum regulatory requirements, in line with our strategy of maintaining financial strength.

Applying rigour to risk management

We apply rigorous stress, sensitivity and scenario testing to risks identified through the ORSA. Stress and sensitivity testing allows us to ensure we have enough capital on our balance sheet to withstand major events such as a stock market crash or adverse changes to our key assumptions. Reverse stress testing has a different starting point, looking at a range of scenarios that might cause the business to fail. This highlights potential vulnerabilities and ensures we have adequate measures in place to manage these risks.

Scenario testing analyses the impact on the Society's capital of some possible 'real world' events that could result in more than one of our most significant risks occurring at the same time. The scenarios are appropriate for the nature, scale and complexity of the Society and are reviewed and approved by the Executive, Risk Committee and Board.

The Society's capital planning process runs continuously, with an updated plan produced annually and approved by the Society's Board. The plan is based on the ORSA, annual and five year business plans. The Society's five year Strategic Plan sets our strategic growth plans and provides a framework for operational planning and budgeting.

Based on the outputs of the ORSA and the other processes described above, the Directors have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the planning period.

The Strategic Report on pages 4 to 22 was approved by the Board on 29 March 2018 and signed on its behalf by

Craig Errington
Group Chief Executive
29 March 2018

WESLEYAN FOUNDATION CASE STUDY

Without support, homelessness can have a serious impact on young people's lives. Here's how the Wesleyan Foundation is supporting one organisation that's helping young people get back on their feet.

Broxtowe Youth Homelessness in Nottinghamshire provides invaluable support to young people aged 16 to 25 who are homeless or at risk of homelessness, giving them the skills and confidence to rebuild their lives.

Thanks to a Wesleyan Foundation grant of over £7,500, Broxtowe is setting up The Living Room project. The Living Room will provide open, friendly and informal drop-in sessions for young people so that they can access relevant services and meet others in a similar situation. They will also receive professional support on issues that might impact them such as domestic violence, young parenting and mental health concerns.

The project will provide three sessions a week, led by a new staff member funded through the Wesleyan Foundation grant, who will work alongside housing officers and other bodies to identify local people in need.

Jessica Brannan, Manager at Broxtowe Youth Homelessness, said: "We know from first-hand experience that the consequences of homelessness on young people are both devastating and far-reaching and no young person deserves to suffer in silence.

"That's why The Living Room project is so essential and we're extremely grateful to the Wesleyan Foundation for making this happen."

The Living Room will become a hub for young people in the area who are facing issues that could impact their housing.

"The Living Room project is so essential and we're extremely grateful to the Wesleyan Foundation for making this happen."

**Jessica Brannan,
Broxtowe Youth Homelessness**

OUR BOARD OF DIRECTORS

Non-Executive Directors

Nathan Moss (b) (d) (f)
Society Chair and Chair of the Nominations Committee

Nathan Moss was appointed Chair in January 2018 having joined the Society's Board in July 2017. He has over 40 years' experience in the wealth management, bank and insurance sectors. During his career, Nathan has undertaken senior executive roles at HSBC, Scottish Widows, Lloyds TSB and Friends Life. He currently serves as a Non-Executive Director at Canada Life Group and some of its subsidiary companies. He has previously held Non-Executive roles at One Savings Bank plc and Homeserve.

Phil Green (b) (d) (e) (f)
Deputy Chair, Senior Independent Director, Chair of the With Profits and Investment Committees

Phil joined the Board in 2010 and was appointed Deputy Chair and Senior Independent Director in September 2014. He has extensive global industry experience, including 18 years working at Sun Life of Canada in a number of senior roles. He then joined AIG in the USA before transferring to its flagship life office in Hong Kong where he was Executive Vice President and Chief Agency Officer for AIA, part of the AIG group. Phil was also President and CEO of LIMRA Europe, the world's largest insurance association, for seven years. He was appointed Chair of Royal London Independent Governance Committee in February 2015.

Chris Brinsmead CBE (b) (c)
Chair of the Remuneration Committee

Chris joined the Board in 2010 bringing with him 30 years' experience in the pharmaceutical industry. He has held leadership roles within ICI and AstraZeneca and also served as President of the Association of the British Pharmaceutical Industry. He is currently Senior Independent Director of UDG plc and a member of council at Imperial College. He chairs two private companies, Bamburgh Capital and Proveca Ltd and is a Non-Executive Director at Collagen Solutions plc. Chris has been an advisor to the UK Government on Life Sciences and was awarded a CBE in January 2015.

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

Martin was appointed to the Board in June 2011 and has over 30 years of sales, marketing and strategy experience. He spent 13 years working for The Boots Group in various roles, including Group Director of Business Development. Prior to that he was Chief Executive at The Shareholder Executive, providing corporate finance advice to 27 government-owned businesses, with an asset base of £20bn. He was also Strategy Director at the Home Office and Chief Operating Officer of BP Retail. Martin became Chair of Wesleyan Bank in January 2013, having joined its Board in September 2012. He holds a number of other Non-Executive positions in the public, private and not-for-profit sectors.

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

Nigel joined the Board in November 2012 and has over 40 years' experience in the life insurance industry. He has held a number of senior actuarial positions including Group Chief Life Actuary for Zurich Financial Services and is also a past President of the Institute of Actuaries. Nigel worked at PwC for 14 years where he was involved in extensive mergers and acquisition activity and advised on international financial reporting. He is a Non-Executive Director of OneFamily and JP Morgan Life Limited.

Andrew Neden MA, FCA (a) (c) (f)
Chair of the Audit Committee

Andrew was appointed to the Board in November 2014. He worked for 30 years at KPMG, the global accountancy firm, including 18 years as a partner. His roles included Head of Financial Sector Transaction Services in the UK and Global Chief Operating Officer for Financial Services. Andrew is also a Non-Executive Director at the Nottingham Building Society, Aetna Insurance Company Limited and ABC International Bank PLC and holds a number of other pro-bono board positions in the not-for-profit and private sector.

Executive Director

Craig Errington D.Univ, CDir, FIoD (d) (f)
Group Chief Executive

Craig celebrated 25 years of service with Wesleyan in 2016. He joined the Society in 1991 and, after a number of rapid promotions, achieved a Board position in 2002 as Group Sales Director. He became Chief Executive in 2005 and has led the Society through a period of extensive change. Craig was named UK Director of the Year by the Institute of Directors in 2011. In 2015 he received an honorary doctorate for his services to business from Birmingham City University. He is also Chair of the Society's Executive Committees, the Members Advisory Board and a number of the Group's subsidiaries. Craig is Chair of the FCA Smaller Business Practitioner Panel.

Others in attendance at Board

Ahmed Farooq BSc, ACMA, DIP IoD (f)
Chief Financial Officer

Ahmed became Chief Financial Officer in November 2015 after holding a number of senior roles at Wesleyan. Having joined the Society in 2010, he was appointed Head of Finance in 2011 and Managing Director of the General Insurance division in 2014. He now leads the Finance, Actuarial, Procurement and Investment team. Ahmed was named the West Midlands Young Director of the Year by the Institute of Directors in 2017. He was Chair of Business Professional Services Birmingham until January 2017, a group that represents the business, professional and financial services sector in Greater Birmingham.

Vicki Wentworth
Chief Customer Officer

Vicki joined Wesleyan in 2016 from LV=, where she was Brand & Marketing Director. Before starting her career in financial services, she spent ten years as an officer in the British Army after graduating from the Royal Military Academy, Sandhurst. She then joined Aviva, working in a number of roles, rising to Director of Global Customer Strategy before moving to LV=. Vicki has responsibility for Wesleyan Financial Services, Practice Plan, Commercial and Group Marketing.

Tim Pindar BA, FIA
Chief Actuary

Tim qualified as an actuary in 1988 and has over 28 years' experience with the Wesleyan Group. He became the Society's Appointed Actuary in 2002 and since 2004 has had overall responsibility for all of the Society's actuarial work, including acting as the With Profits Actuary. Tim has served on several actuarial working parties and co-authored a number of actuarial papers.

Roger Dix MA, FIA, CMIRM
Chief Risk Officer

Roger joined Wesleyan in 2013 as Chief Risk Officer. He previously held several executive level positions working for Life Insurance and reinsurance entities in the UK and Europe. Roger is a qualified actuary and an expert on risk, contributing to papers and conferences on the subject. Roger is responsible for Wesleyan's risk and regulatory activity. In 2017, he was named one of the most influential people in risk by InsuranceERM magazine.

Doug Bright MA, FIA, DIP IoD
Company Secretary

Doug celebrated 30 years of service at Wesleyan in 2017. He joined the Society in 1987 as an actuary, having graduated from St John's College, Oxford with a degree in Maths. Before becoming Company Secretary in 2014, Doug held a number of senior positions including Head of Actuarial, Head of Product Strategy and Development and more recently Head of Risk. Doug's role includes advising on corporate governance issues.

Key to Membership of Board Committees

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

CORPORATE GOVERNANCE

Introduction

The Society aims to meet the highest standards of corporate governance. The Board is responsible to the Society's policyholders and has chosen to adopt the UK Corporate Governance Code. This report summarises the Society's governance arrangements and continued enhancements and, in accordance with the UK Corporate Governance Code, identifies those areas of the Code where the Society does not comply, for which an explanation is given.

Companies Act 2006 and Society's Rules

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

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 Operating Officer, Chief Customer Officer, Chief Financial Officer, Chief Actuary, Chief Risk Officer and Company Secretary attend all Board meetings. There is a formal schedule of matters reserved for the Board's decision. The roles of Chair and Group Chief Executive are separated and the Chair has primary responsibility for the effective functioning of the Board. Authority is delegated to the Group Chief Executive for implementing strategy and managing the Society.

An externally facilitated evaluation of Board process, including the performance of the Chair, was carried out in the final quarter of 2015, in line with industry guidance. All members of the Board contributed to the evaluation, as did the Chief Actuary, the Chief Risk Officer and the Company Secretary. In view of the positive results of the 2015 review, internal reviews of Board effectiveness assessing progress against the small number of areas for improvement identified in the 2015 review were undertaken in 2016 and 2017. It is planned to undertake an externally facilitated evaluation of Board process in 2018.

The Chief Actuary reports to the Audit Committee and to the Board on the actuarial methods and assumptions he recommends are adopted for the calculation of the Society's liabilities. He also reports annually, or more frequently as required, on the following aspects of the calculation of the technical provisions in the Society's balance sheet: their adequacy and reliability; the appropriateness, accuracy, reliability and completeness of the data used to calculate them; and the appropriateness of the methods, models and assumptions adopted to calculate them.

The Chief Actuary, in his role as With Profits Actuary, also makes recommendations on bonus and payout levels to be declared in respect of the different classes and generations of with profits policy. 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 policyholders.

The Board and its Committees have access to the Chief Actuary, Chief Risk Officer 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 and others in attendance at the Board are described in the full report. All Directors hold policies with the Society in accordance with the Rules of the Society. The Remuneration Report on pages 33 to 47 explains the basis of remuneration of the Executive and Non-Executive Directors.

The Chair

Nathan Moss joined the Board on 1 July 2017 and took over from Bryan Jackson as Chair with effect from 1 January 2018.

The process to identify a successor to Bryan Jackson as Chair was led by Phil Green, Deputy Chair and Senior Independent Director. An external search agency, the Norman Broadbent Group, was used in this appointment. The Norman Broadbent Group has no connections with the Wesleyan Group. In addition to his responsibilities with the Society and its subsidiaries, Nathan's other significant commitments are as a Non-Executive Director of Canada Life Group UK Ltd and a number of its subsidiary companies.

Executive Directors

There is currently one Executive Director, the Group Chief Executive.

Non-Executive Directors

There are currently six Non-Executive Directors on the Board, including the Chair.

Their diverse experience, skills and independent perspectives provide effective review and challenge of the Society's activities. The UK Corporate Governance Code requires that at least half of the Board should comprise Non-Executive Directors, excluding the Chair. The Society complied with this requirement at 31 December 2017 and expects to continue to do so. The Board remains confident that the strength of its independent Non-Executive Directors continues to be sufficient to ensure that an individual or small group cannot dominate the Board's decision-making.

The Chair and the Deputy Chair / Senior Independent Director are appointed by the Board. The Board appointed Phil Green as Deputy Chair / Senior Independent Director in September 2014. The Board considers all Non-Executive Directors to be independent of the Society in all matters notwithstanding their policies and their fees. These assessments are based on the character of the individuals in respect of independent mindedness when it comes to the raising of relevant issues and the rigorous process of assessment, judgement and follow through. Great emphasis is also placed on their knowledge and experience of the industry.

Appointments to the Board

All appointments are subject to review by the Board, as advised by the Nominations Committee. It is anticipated that a minimum term of three years will be served with a further three-year term subject to the agreement of the Board. Annual extensions may be considered thereafter, normally up to a maximum nine-year term. Directors follow an induction programme on joining the Board and further training on specific subjects is undertaken as necessary. New Directors must retire and seek re-election at the first Annual General Meeting (AGM) following appointment. All other Directors submit themselves for re-election annually.

Board Committees

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

Audit Committee

Andrew Neden has served as Chair of the Committee from his appointment to the Board with effect from 17 November 2014. The Committee comprises two other Non-Executive Directors, one of whom, Nigel Masters, is the Chair of the Society's Risk Committee. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Actuary, the Chief Risk Officer and the Head of Corporate Audit. A separate Audit Committee for Wesleyan Bank was established in September 2015.

The Audit Committee assists the Board in fulfilling its responsibilities in respect of the Annual Accounts and Regulatory Returns to the Prudential Regulation Authority (PRA). The Committee keeps under review the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Society has introduced the opportunity for employees to contact an independent confidential advice line.

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

The Committee's report is set out on pages 52 to 55.

Risk Committee

The Risk Committee's principal role is to consider the risks faced by the Society and its subsidiary companies and to advise the Board. Nigel Masters was appointed Chair of the Risk Committee on 31 January 2013. The Committee currently comprises two other Non-Executive Directors, one of whom, Andrew Neden, is the Chair of the Society's Audit Committee. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Actuary, the Chief Risk Officer and the Head of Corporate Audit. A separate Risk Committee for Wesleyan Bank was established in September 2015.

CORPORATE GOVERNANCE
continued

It is the Chair's practice to meet separately with the Chief Risk Officer ahead of most meetings. The Committee's main activities during 2017 included:

- reviewing and assessing the risk oversight provided by management in connection with current and emerging risk exposures;
- assessing the impact of management's strategic plans as well as external events on the risk profile of the Group;
- gaining assurance that an appropriate culture in relation to the management of risk continues to be maintained; and
- receiving reports from the Chief Risk Officer on a wide range of issues, including potential acquisitions, new products and regulatory change.

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

Investment Committee

The Investment Committee was established as a new Board sub-committee in November 2016. The purpose of the Investment Committee is to provide independent oversight of the Society's investment performance and monitor that the investments are in line with the Society's investment strategy. Phil Green was appointed Chair of the new committee which currently comprises two other Non-Executive Directors, the Group Chief Executive and the Chief Financial Officer. Other attendees include the Chief Actuary, the Chief Risk Officer and Managing Director of Investments.

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

Remuneration Committee

Chris Brinsmead was appointed Chair of the Committee from 1 January 2011. The Committee currently comprises three other Non-Executive Directors with the Group Chief Executive and the Director of HR and Corporate Services in attendance as required. The Committee is responsible for the terms of remuneration for Executive Directors, other members of the Executive and Non-Executive Directors, including arrangements for short and long-term incentive payments and for ensuring risk is appropriately taken into account in all aspects of remuneration for Executive Directors and other members of the Executive. The Committee also exercises oversight over the Society's Remuneration Policy. No individual takes part in the setting of their own remuneration.

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

The Committee's report is set out on pages 33 to 47.

Nominations Committee

Bryan Jackson chaired the Nominations Committee until he stood down from the Society's Board and was then succeeded by Nathan Moss. The Committee comprises two other Non-Executive Directors and the Group Chief Executive, with the Director of HR and Corporate Services also in attendance as required. The Committee regularly reviews the structure, size and composition of the Board, in particular the balance of skills, knowledge and experience, and considers succession planning for Directors and other Senior Executives. The Committee has considered the current composition of the Board and determined that it continues to be appropriate to the requirements of the business.

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

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

Other Board members with particular skills relevant to the nomination of new appointments may be invited to attend for all or part of any meeting, as and when appropriate. Nathan Moss, as Chair of the Society's Board, would not chair the Committee when it deals with the matter of succession to his role.

DIVERSITY

The Society is committed to the principle of diversity and to achieving fairness and equality in the workplace. The Society has signed the Women In Finance Charter and committed to:

- support the progression of women into senior roles by focusing on the executive pipeline and the mid-tier level;
- set a gender target (33% of our top roles - Board, Executive and Senior Managers - to be filled by women by 2023) and a gender strategy;
- publicly report on progress to deliver against this internal target.

At 31 December 2017, 12% of our top roles were filled by women.

The Nominations 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 Committee

The Committee covers both the Open Fund and the Medical Sickness Society (MSS) Fund, which is closed to new business. The members of the Committee at 31 December 2017 were:

Phil Green (Committee Chair, Non-Executive Director)
Nigel Masters (Non-Executive Director)
Ian Clegg (independent external appointee)
Andrew Peck (independent external appointee)
Roy Spragg (independent external appointee)

The role of the Committee is to assess, report on, and provide clear advice and, where appropriate, recommendations to the Board on:

- the way in which the Open Fund and MSS Fund are managed by the Society and whether this is properly reflected in the respective Principles and Practices of Financial Management (PPFM);
- whether the Society is complying with the principles and practices set out in the PPFMs;
- whether the Society has identified, and addressed effectively, the conflicting rights and interests of with profits policyholders and other policyholders, or stakeholders, in a way that is consistent with treating customers fairly; and
- any other issues that the Board or the Committee considers with profits policyholders might reasonably expect the Committee to be involved in or are required to be considered under FCA rules.

The Committee can engage external professional consultants to assist in delivering its objectives effectively. The Committee's Terms of Reference, and the PPFMs, are available on request and from the Society's website - **www.wesleyan.co.uk**.

Subsidiary Company Governance

The Society's main subsidiaries are set out in Note 20 on pages 108 to 111 of these accounts. The Group is managed as far as possible as an integrated whole. Other than for Wesleyan Bank Limited, the Boards of the Society's subsidiary companies are chaired by the Society's Group Chief Executive or another senior executive, with other senior executive colleagues appointed to the particular board relevant to their role.

The Board of Wesleyan Bank Limited is chaired by Martin Bryant, an independent Non-Executive Director of the Society. The other Directors of Wesleyan Bank currently include another three independent Non-Executive Directors, who all have significant experience of the banking industry, and an Executive Director. As part of its governance arrangements, Wesleyan Bank Limited has established its own Audit Committee and Risk Committee.

CORPORATE GOVERNANCE
continued

Committee Membership and Attendance at Meetings

	Society's Board	Audit Committee	Risk Committee	Investment Committee	Remuneration Committee	Nominations Committee	With Profits Committee
Meetings in the year	9	7	6	3	6	5	5
Non-Executive Directors:							
Bryan Jackson	9	–	–	–	6	5	–
Nathan Moss	4/4	3/3	3/3	1/1	–	–	–
Chris Brinsmead	9	–	3/4	–	6	–	–
Martin Bryant	9	4/5	–	–	–	5	–
Phil Green	9	–	–	3	6	5	5
Nigel Masters	9	7	6	–	–	–	5
Andrew Neden	8/9	7	6	3	–	–	–
Executive Directors:							
Craig Errington	9	–	–	3	–	5	–
Liz McKenzie	7/7	–	–	–	–	–	–

Management of the Society

In accordance with the Society's Rules, the Board has delegated authority to the Group Chief Executive for implementing strategy and managing the Society. The Group Chief Executive has formed certain Executive Committees to assist him in carrying out his responsibilities. The Executive Committees comprise the Group Chief Executive, the Chief Customer Officer, the Chief Financial Officer, the Chief Operating Officer, the Director of HR and Corporate Services and the Chief Risk Officer. The Chief Actuary, Company Secretary, Business Unit Managing Directors and other members of senior management attend as appropriate. The Executive Committees meet regularly to manage business activities. Papers are prepared and presented to the Board after agreement by the appropriate Executive Committee.

Accountability and Audit

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

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

Control Environment

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

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

Control Procedures

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

- Executive Committee meetings, chaired by the Group Chief Executive, which consider significant risk and control issues as part of their remit, including:
  - the work of the Risk and Regulatory Compliance functions and of Corporate Audit and the timely resolution of actions agreed as a result of their work and that of the external auditors;
  - compliance with laws and regulations, business policies, codes of conduct and customer agreements, good business practices and rules including changes in the regulatory environment;
  - the business continuity plans that the Society has developed to manage situations in which buildings, systems or significant employees are unavailable, for example, in the event of a flu pandemic or the loss of utilities;
- a risk assessment methodology;
- physical controls, segregation of duties and reviews by management;
- reviews carried out by Corporate Audit (refer to section headed 'Internal Audit');
- reports from the Society's Compliance Officer who has oversight of the compliance with the FCA's/PRA's business standards on a day-to-day basis;
- preparation and monitoring of detailed budgets for functional business segments; and
- a change programme management function to structure, co-ordinate, monitor and report on the most significant projects that the Society is undertaking.

Information and Communication

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

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

The Board receives regular reports on how its sales and marketing functions are complying with FCA regulations.

Risk Management

Key risks are referred to in the Strategic Report under 'Principal Risks and Uncertainties'.

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

Internal Audit

The Society has an internal audit capability (Corporate Audit), providing assurance over its system of governance, risk management and internal control. The programme of internal audit reviews is designed to provide assurance that the controls implemented by management are adequate and working effectively. Appropriate external expertise is engaged where necessary to support its activities. It is committed to operating in line with the best practice guidelines set out by the Chartered Institute of Internal Auditors. It carries out reviews by applying a risk-based approach, the results of which are reported to the relevant Executive Committee and to the Audit Committee.

CORPORATE GOVERNANCE
continued

Monitoring and Corrective Action

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

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

- reporting by the Society's internal audit function on the key controls reviewed;
- the work of other independent advisers commissioned to report on specific aspects of internal control; and
- 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.

Member Relations

The Society forwards notice of AGMs to members, together with a proxy form and a Performance Review. In addition, the Society has established Advisory Boards comprising doctors and dentists, junior doctors and dentists and lawyers and, for teachers, the NASUWT Strategy Working Group which meet with management regularly to discuss strategy, business plans, products, services and marketing issues relevant to members/customers of the individual professions. The remit of the Members Advisory Board includes consideration of corporate governance matters. Management and the Board are kept informed of these issues and any other views and concerns raised by these member groups. All other relevant information is made available in the 'Member Relations' section of the main website. The Board is always interested to hear members' views and these should be channelled through the Company Secretary (**companysecretary@wesleyan.co.uk**).

Policyholder Communications

The Board is committed to openness in its communications with policyholders. During the year, the Board has sought to keep relevant stakeholders informed on all major issues. At its AGM, 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 UK Corporate Governance 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**.

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 has concluded that it remains appropriate to prepare these financial statements on a going concern basis.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2017

"The Remuneration Committee regularly reviews the Society's Executive remuneration policy to ensure it achieves its objectives to recruit, motivate and retain senior leaders of the calibre required to successfully direct the business."

Chris Brinsmead CBE
Chair of the Remuneration Committee

Dear Member

On behalf of the Remuneration Committee I am pleased to present the Directors' Remuneration Report. As Chair of the Committee, I work closely with the Board and Executive team to ensure we offer a reward package that attracts and retains talented people who will continue to deliver great results on your behalf. The Society faced significant challenges in 2017. In particular, the changes to the NHS GP contract implemented in April impacted sales of the Society's Practice Protector Plus Product. Despite this, the Society achieved its key financial targets and grew strongly (New Business Annual Premium Value growth was 27%, total premium income growth was 22%) whilst continuing to deliver a great customer experience and improving employee engagement.

Regulations governing remuneration for Executives working in listed companies have been designed to strengthen the link between the rewards received for performance and the long-term financial health and stability of the business. As a mutual we are not governed by these same regulations; we have however chosen to follow them as we believe greater disclosure will help members to better understand how the reward strategy supports their interests and the Society's business objectives.

The Remuneration Committee regularly reviews the Society's Executive remuneration policy to ensure it achieves its objectives to recruit, motivate and retain senior leaders of the calibre required to successfully direct the business.

Remuneration for the Year Under Review

2017 was the first year of our new Executive variable pay arrangement that using a balanced scorecard approach measures both Society and individual performance against a range of customer, financial, employee and continuous improvement metrics underpinned by both risk and individual behaviour considerations.

The maximum bonus achievable in 2017 was 78.75% of base pay. On average, the bonus payable was 42.2% of base pay, which reflects our operating performance.

Under the Long Term Incentive Plan (LTIP) that was in place before our new arrangements were introduced, the payment made was based on performance over the years 2015 to 2017 inclusive and based on salary in 2015. The amount paid was 22.1%, made up of 13.3% for achieving the Annual Business Plan and 8.8% in respect of the investment performance of the Society's Long Term Policyholder Fund. This was against a maximum payment of 30%.

The Remuneration Committee can withhold or reduce the amount of bonus paid if they feel undue risk has been taken in achieving our business objectives. As all risks were managed within our risk appetite there were no deductions made.

DIRECTORS' REMUNERATION REPORT
continued

Notice Period for Non-Executive Directors

During 2017 it was agreed to increase the notice period to be given by the Non-Executive Directors to the Society or by the Society to the Non-Executive Director to six months for the Chair and Deputy Chair and Senior Independent Director and three months for other Non-Executive Directors. Previously, the notice period for all Non-Executive Directors was one month. The change was agreed to provide the Society with additional continuity and further time to find a suitable replacement in the event that an existing Non-Executive Director wishes to resign. Although this constitutes a change in remuneration policy, the Society considers this to be a minor change and is therefore not putting the policy to another advisory vote at this year's Annual General Meeting (AGM).

Structure of the Report

We aim to comply with best practice and have taken into account the reporting requirements contained in the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which apply to listed companies. As a result:

- the Directors' Remuneration Policy has been updated to include details of the outturn of the new Executive variable pay arrangement; and
- the Annual Report on Remuneration reflects the amounts paid to Directors under the Remuneration Policy approved by members at last year's AGM.

The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM so that we can take on board your views in setting our policy for the future.

I hope that that you will be supportive of these resolutions and I recommend that you, as members, approve this report.

Yours sincerely

Chris Brinsmead CBE
Chair of the Remuneration Committee
29 March 2018

Introduction

Our high level vision, to be the Best in our Chosen Markets, is based on the following values and principles:

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

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

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

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

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

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

Our chosen values, strategy and regulatory requirements define our remuneration approach. In line with the Society's Remuneration Policy, there are a number of key considerations:

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

In addition, from the perspective of our members, customers and employees, our arrangements need to be transparent, understandable, fair, reasonable and proportionate.

The structure of total remuneration is therefore focused on a relatively high proportion of basic pay to variable pay as follows:

Achievement Level	Base pay vs. Variable % of Total
On Target	Approximately 75%:25%
Maximum	Approximately 55%:45%

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

To protect the interests of members, the Remuneration Committee has the right to recall or retain any or all unvested variable pay and this right will be exercised in a fair and reasonable manner. In deciding if this should apply, the Remuneration Committee considers, but not exclusively, material misstatement of financial statements, inappropriate risks and behaviours and any other factors that should reasonably be taken into account.

DIRECTORS' REMUNERATION POLICY

Directors' Remuneration Policy

Remuneration Policy Table

Details of the main elements of Directors' remuneration are set out in the table below.

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To attract and retain high performing individuals to lead the Society.	Base salary is reviewed annually, or more frequently if there is a significant change in an individual's role or responsibilities, or if another exception arises. Any decision on base salary is influenced by a range of factors including but not limited to: ▶ level of experience/rewarding performance; ▶ length in role; ▶ Society affordability and performance; ▶ ability to attract/retain; ▶ pay awards for the Society's other employees; ▶ prevailing market conditions; and ▶ external benchmark data.	There is no maximum salary. Increases in salary will normally be in line with those awarded to other Society employees but higher increases may be made, for example, to reflect: ▶ increase in scope of role or responsibility; ▶ an Executive Director being moved to market positioning over time; or ▶ an Executive Director falling significantly behind the market rate for that role.	Subject to annual review of individual contribution and Society performance.
Benefits	To operate a competitive benefits and pension structure that provides appropriate protection to our employees.	Benefits currently provided are: ▶ a car allowance or the provision of a car (including all maintenance costs); ▶ private medical cover for the individual and their spouse/partner; ▶ medical screening; ▶ Group product discounts (available to employees and Directors on the same terms); and ▶ death in service benefit of 8× pensionable salary.	There is no restriction on the benefits provided and other benefits may be added if considered appropriate. However, the cost of these benefits is taken into account in assessing affordability.	N/A

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Retirement benefits	To provide post-retirement benefits for participants in a cost-effective manner.	The defined benefit Wesleyan Society Pension Scheme closed to future accrual with effect from 5 April 2016; consequently, all Executive Directors are either a member of the Society's contract-based defined contribution scheme or receive a cash allowance.	Defined contribution: Society contributes 15% for Executives based on an employee's contribution of 8%. For Executives who were members of the defined benefit pension scheme which was closed to future accrual with effect from 5 April 2016, higher Society contributions apply for a period of three years following closure. If a cash allowance is taken then the amount paid to the individual is reduced to allow for the cost of employer's National Insurance Contributions. The Society regularly reviews pension benefits for employees, taking account of affordability and tax and legislative changes and may amend benefits for future service or introduce different levels or types of benefit for both new and existing Directors. Existing defined benefit pensions will be increased in line with the rules of the Scheme.	N/A

DIRECTORS' REMUNERATION POLICY
continued

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Variable pay	To ensure that there is an appropriate incentive for Executive Directors to meet the annual objectives of the business.	Individual performance evaluations for bonus are recommended by the CEO following a similar procedure to other Society employees but based on an Individual balanced scorecard linked to delivery of the Society's overall strategy. The evaluation considers the individual's contribution towards the Society's values and goals, engendering good risk and compliance management and customer outcomes. This recommendation is discussed and concluded by the Remuneration Committee and considered in light of the expected distribution of individual performances. Performance evaluation of the CEO is recommended by the Society's Chair with input from the other Non-Executive Directors. 50% of any bonus earned will be deferred for up to three years. Any deferred amounts will vest to the Executive Directors in three equal tranches after one, two and three years. Variable pay is subject to malus and clawback provisions. Malus provisions will apply to an unvested bonus award and clawback provisions will apply to vested amount for three years following the vesting of such awards.	Overall cash payment of: ▶ 35% of salary if both the Society and Individual perform on target; and ▶ up to 78.75% of salary if both the Society and Individual perform at stretch target During the deferral period any unvested amounts may be adjusted up or down to reflect the performance of the With Profits Fund (or other such fund as the Remuneration Committee deems appropriate). All payments of annual bonus are subject to approval by the Remuneration Committee and are non-pensionable.	Balanced scorecard approach for both Society and Individual performance based on financial, customer, employee and continuous improvement metrics. The Remuneration Committee may adjust pay-outs based on the evaluation of personal behaviours and any risk, compliance or other concerns.

Remuneration for the Chair and Non-Executive Directors

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

Explanation of Chosen Performance Measures and How Targets Are Set for Executive Directors

Variable Pay

The performance measures and targets for variable pay are selected annually to align with the customer's experience, the business strategy and the key drivers of performance. The weighting of the variable pay between the various metrics may vary depending on the key priorities of the business. Robust and demanding targets are set, taking into account the operating environment and priorities and the business plan for the year ahead. Further details on the performance measures to be used for the forthcoming year are set out in the Annual Report on Remuneration on page 45.

Pay Policy for Other Employees

The principles underlying the pay policy for Executive Directors apply to all of the Society's employees. In particular:

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

Remuneration Policy for New Appointments

Remuneration packages for new director appointments will comply with the pay policy set out in the table on page 36 to 38.

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

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

Additional awards may be made when hiring new directors to 'buy-out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Remuneration Committee will take account of relevant factors regarding the forfeited arrangements, which may include any performance conditions attached to awards forfeited (and the likelihood of meeting those conditions), the time over which they would have vested and the form of the awards. The Remuneration Committee's intention is that the value awarded would be no higher than the expected value of the forfeited arrangements. Where considered appropriate, buy-out awards will be subject to forfeiture or clawback on early departure.

In the event of an internal promotion, any prior contractual obligations and incentive awards to the new director may be honoured.

DIRECTORS' REMUNERATION POLICY
continued

Policy for Service Contracts and Payments for Loss of Office

Each Executive Director has a continuous service contract with the Society, which is considered appropriate for the requirements of the Group. Compensation payable upon early termination (other than under the payment in lieu of notice provisions) would be based upon the contractual entitlement to salary and benefits subject to mitigation. The policy set out below provides a framework for any payments made in respect of an Executive Director's loss of office.

Element of remuneration	Policy
Notice period	Twelve months by either the employing entity or the employee.
Termination payments	At the discretion of the Remuneration Committee, a payment in lieu of notice may be made in respect of all or part of the notice period. Any such payment would be limited to no more than one year's salary [plus benefits in kind (including company car/car allowance, private health insurance and pension contributions)]. Benefits may also be provided in connection with termination of employment and may include, but are not limited to, outplacement and legal fees and payments in respect of accrued holiday.
Variable pay	**Leavers during the annual bonus performance year** The Remuneration Committee has the discretion to determine an appropriate bonus amount, taking into consideration the circumstances in which an Executive Director leaves. No bonus award will be made unless the Executive Director is determined to be a 'good leaver'. For a 'good leaver' the Remuneration Committee has the discretion to make awards on such basis as it deems appropriate (this could include pro-rating for time and performance). Awards may vest on cessation of employment or, at the Remuneration Committee's discretion, vest at the usual date subject to the usual deferral periods. **Unvested deferred bonus awards** Unless determined as a 'good leaver', unvested deferred bonus awards will lapse upon cessation of employment. For a 'good leaver', awards will typically vest in full on the usual date. The Remuneration Committee has the discretion to pro-rata awards based on the time employed and to allow awards to vest early, to the extent deemed appropriate. **Vested but unpaid deferred bonus awards** Subject to clawback and malus provisions that include: ▶ gross misconduct; ▶ material misstatement (including any omission) in the Society's financial statements; ▶ a material adverse event; and ▶ assessment of metrics based on an error, or on inaccurate or misleading information. Any vested awards will remain payable to the Executive Director. In all other circumstances any unpaid deferred bonus awards will lapse on the date of cessation of employment.
'Good leaver'	A good leaver, for the purposes of the variable pay, will be any Executive Director who leaves employment for reasons of: ▶ death; ▶ injury or disability (as determined to the satisfaction of the Remuneration Committee); ▶ retirement with agreement of the Society; ▶ the Executive Director's office or employment being with an entity which ceases to be part of the Group; or ▶ any other reason the Committee so decides.

Under the terms of their engagement, the notice period to be given by the Non-Executive Directors to the Society is six months for the Chair and Deputy Chair and Senior Independent Director and three months for other Non-Executive Directors.

The Remuneration Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Existing Contractual Arrangements

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy, where the terms of the payment were agreed after the previously agreed Directors' Remuneration Policy came into effect but before the Policy set out above came into effect at the 2017 Annual General Meeting, and where the terms of the payment are in line with that previous policy (for example, vesting of awards under the discontinued LTIP).

Illustration of Remuneration Policy for 2018

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

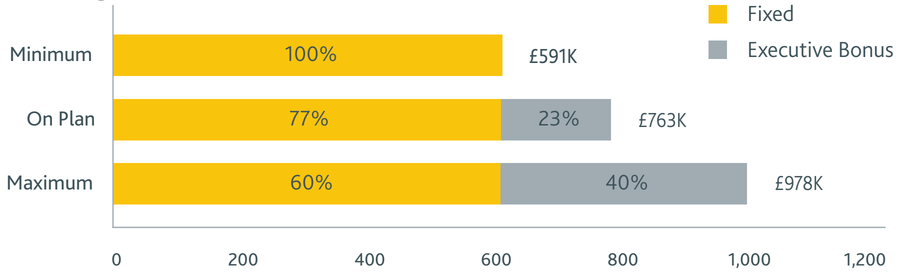
Minimum — this shows the fixed elements of pay (salary, pensions and benefits).

On plan — assuming the Society delivers target levels of performance against the measures set out in our variable pay plan.

Maximum — this assumes that our variable pay plans pay out in full; this would only occur if performance had been truly exceptional across all of the measures set.

Craig Errington

Percentages/Amounts (£000s)



Minimum performance	Fixed elements of remuneration only — base salary, benefits and pension
On plan performance	Variable pay: For illustrative purposes all Executive Directors have been assumed to be paid the same level of variable pay (35% of salary) but the actual amount payable to each Director would depend on the Remuneration Committee's evaluation of individual performance and would range from no bonus being payable (unacceptable performance) to 52.5% of salary (stretch performance).
Maximum performance	Variable pay: For illustrative purposes all Executive Directors have been assumed to be paid the same level of bonus (78.75% of salary) assuming both the Society and individual have performed at stretch performance.

DIRECTORS' REMUNERATION POLICY
continued

Wider Workforce Remuneration

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

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

Member Engagement

The Society periodically discusses the approach to Directors' remuneration with the Society's Advisory Boards. Feedback received through these discussions is taken into account in future years.

The Directors' Remuneration Policy was subject to an advisory vote at the 2017 AGM and over 93% of those voting were in favour. In line with the regulations for listed organisations, the Policy will be subject to an advisory vote at the AGM every three years, or earlier if there is a significant change in policy. During 2017 it was agreed to increase the notice period to be given by the Non-Executive Directors to the Society or by the Society to the Non-Executive Director to six months for the Chair and Deputy Chair and Senior Independent Director and three months for other Non-Executive Directors. Previously, the notice period for all Non-Executive Directors was one month. The change was agreed to provide the Society with additional continuity and further time to find a suitable replacement in the event that an existing Non-Executive Director wishes to resign. Although this change constitutes a change in remuneration policy, the Society considers this to be a minor change and is therefore not putting the Remuneration Policy to another advisory vote at this year's AGM. The Annual Report on Remuneration will be subject to an advisory vote at the 2018 AGM.

ANNUAL REPORT ON REMUNERATION

Single Figure of Remuneration for Each Director

The remuneration of the Directors of Wesleyan Assurance Society for the year ended 31 December 2017 and the previous year is set out in the tables below. This is audited information.

Director	Salary/ fees(a)	Benefits(b)	Bonus(c) Cash	Bonus(c) Deferred	Long-term incentives(d)	Pension(e)	Sub-total-ongoing	Other(f)	Total Remuneration
Year ended 31 December 2017, £'000									
Executive									
Craig Errington	482	18	119	119	102	96	936	-	936
Liz McKenzie (until 31 October 2017)	208	10	44	44	45	27	378	361	739
Non-Executive									
Bryan Jackson	120	-	-	-	-	-	120	51	171
Philip Green	77	-	-	-	-	-	77	-	77
Chris Brinsmead	51	-	-	-	-	-	51	-	51
Nathan Moss (from 1 July 2017)	35	-	-	-	-	-	35	-	35
Martin Bryant	51	-	-	-	-	-	51	-	51
Nigel Masters	51	-	-	-	-	-	51	-	51
Andrew Neden	51	-	-	-	-	-	51	-	51
Total	**1,126**	**28**	**163**	**163**	**147**	**123**	**1,750**	**412**	**2,162**
Year ended 31 December 2016, £'000									
Executive									
Craig Errington	473	27	141	-	91	138	870	-	870
Liz McKenzie	245	12	49	-	40	33	379	-	379
Non-Executive									
Bryan Jackson	118	-	-	-	-	-	118	-	118
Philip Green	67	-	-	-	-	-	67	-	67
Chris Brinsmead	50	-	-	-	-	-	50	-	50
Tania Brisby (until 17 October 2016)	42	-	-	-	-	-	42	34	76
Martin Bryant	50	-	-	-	-	-	50	-	50
Nigel Masters	50	-	-	-	-	-	50	-	50
Andrew Neden	50	-	-	-	-	-	50	-	50
Total	**1,145**	**39**	**190**	**-**	**131**	**171**	**1,676**	**34**	**1,710**

ANNUAL REPORT ON REMUNERATION

continued

The figures in the single figure table on the preceding page are derived from the following:

(a) Salary/fees	Salary and fees paid during the period.
(b) Benefits	Value of benefits in kind provided during the period.
(c) Bonus	Under the annual bonus scheme for 2017, a bonus of up to 78.75% of salary was payable depending on Society and individual performance. 50% of that bonus is deferred and payable in equal instalments over three years, adjusted in line with performance of the With Profits fund. Payments under the scheme before deferral based on the Society's performance in 2017 represented an average amount equivalent to 42.2% of salary based on various measures (and further details are provided below (2016: 26.3% of salary based on performance of 119% of budgeted operating profit)).
(d) Long-term incentives	Under the Long Term Incentive Plan (LTIP) the payment made early in 2018 was based on performance over the period 2015 to 2017 inclusive. The amount payable was 22.1% of salary in 2015, 13.3% in respect of achievement of the Annual Business Plan and 8.8% in respect of investment performance of the Society's Long Term Policyholder Fund. The payment made in March 2017 was based on performance over the period 2014 to 2016 inclusive. The amount payable was 20.2% of salary in 2014 (13.3% in respect of achievement of the Annual Business Plan and 6.9% in respect of investment performance of the Society's Long Term Policyholder Fund).
(e) Pension	For defined benefit scheme members, the amount included in respect of pension benefits is calculated as: ▶ the value of increase in pension entitlement over the year in excess of inflation; plus ▶ the cash allowance payable in lieu of pension accrual in excess of the annual allowance; less ▶ the employee's contributions. For defined contribution scheme members, the amount included in respect of pension benefits is the Society's contribution to the scheme (or the cash allowance payable in lieu of the Society's contribution to the scheme) during the year.
(f) Other	The amounts shown for Liz McKenzie, Tania Brisby and Bryan Jackson reflect contractual compensation, outstanding incentive payments and compensation for loss of office paid on stepping down from the Society Board and ceasing employment with the Society / stepping down from the Board.

Individual Elements of Remuneration

Base Salary and Fees

Salaries for Executive Directors were increased by 2.0% with effect from 1 January 2018, in line with the general increase for other employees.

Fees for Non-Executive Directors were also increased by 2.0% with effect from 1 January 2018.

2017 Annual Bonus

Under the annual bonus scheme for 2017, a bonus of up to 78.75% of salary was payable depending on Society and individual performance. 50% of that bonus is deferred and payable in equal instalments over three years, adjusted in line with performance of the With Profits fund. Payments under the scheme before deferral based on the Society's performance in 2017 represented an average amount equivalent to 39.8% of salary. A Society bonus multiplier of 1.175 times (maximum 1.5 times) was determined based on financial, customer, employee and continuous improvement metrics as follows:

Metric	Weighting	Measure	Below Target	At Target	At Stretch
Financial	40%	Group Operating Profit (post project costs)			
Customer	15%	Net Promoter Score			
Employee	15%	Employee Engagement			
Continuous Improvement	30%	Various objectives that will enable the Society to achieve its next five-year strategic plan			

In reaching its conclusion, the Remuneration Committee considered the way the Executive had shown leadership and direction to overcome unbudgeted constraints to achieving the Society's financial performance targets. The Remuneration Committee agreed that achieving performance above target against a challenging backdrop should be recognised in the overall Society multiplier.

An individual bonus multiplier of 1.20 times for the Group Chief Executive (maximum 1.5 times) was determined based on performance against his individual objectives. The annual bonus is also subject to a risk and behavioural underpin. The Remuneration Committee has assessed the performance of the Society and the Executive Directors and is confident they have operated within an appropriate level of risk and appropriate behaviours.

The total annual bonus for 2017 was as follows:

	Target bonus	Society multiplier	Individual multiplier	Total bonus earned £000's	Total bonus deferred £000's
Craig Errington	35% of salary	1.175	1.2	238	119

Liz McKenzie was awarded a bonus of £87,394, equivalent to an unadjusted on-target bonus of 35%. £43,697 will be deferred over three years. This was agreed with her as part of her settlement agreement.

Summary of 2018 Variable Pay Operation

Under the variable pay scheme for 2018, a bonus of up to 78.75% of salary will be payable depending on Society and individual performance. The scheme will be based on financial, customer, employee and continuous improvement metrics that are aligned to the Society's strategic plan. 50% of any bonus will be deferred for up to three years. Any deferred bonus awards will vest in three equal tranches over the three years from award and be adjusted for performance in line with the With Profits Fund.

Value Earned from Long-term Incentive Awards

The following table sets out the amounts accrued in respect of the Long Term Incentive Plan (LTIP).

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

The 2015 award was paid in March 2018.

Performance period	2016 (£'000) 2016–2018		2015 (£'000) 2015–2017		Total (£'000) N/A	
Value of award	Current	Original	Current	Original	Current	Original
Craig Errington	111	71	102	69	213	140
Liz McKenzie	58	37	45	31	103	68

The last Long Term Incentive Award was made in 2016 (to be paid in March 2019). For the avoidance of doubt, no further awards will be made under the LTIP.

Total Pension Entitlements

The value below represents the Society accrued defined benefit pension entitlement for Craig Errington. Members of the Scheme had the option to pay additional voluntary contributions to secure additional pension benefits on a defined contribution basis. These are not included in the table below.

Director	Accrued Pension p.a. at 31 December 2017 (£'000)	Accrued Pension p.a. at 31 December 2016 (£'000)
Craig Errington	31	31

The accrued pension is based on service to 5 April 2016 (when the Scheme was closed to future accrual) and pensionable salary at that date and subsequent revaluation in line with the rules of the Scheme.

ANNUAL REPORT ON REMUNERATION
continued

Craig Errington has previously transferred the value of his Wesleyan Employees Pension Scheme benefit to another arrangement. The figures shown above reflect his defined benefit pension entitlement which remains in the Society's unfunded arrangement and which will be paid directly by the Society when in payment.

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

Payments to Executive Directors for Roles Elsewhere

The Society allows Executive Directors to undertake an additional external Non-Executive Director or other role to support their personal and commercial development subject to approval, taking account of potential conflicts of interest, the time commitment required and alignment with the Society's business strategy and values. Any fees earned through the duties of all approved external appointments may be retained by the Executive Director.

From 1 April 2017 Craig Errington became the Chair of the FCA Smaller Business Practitioner Panel, having previously been a member. During 2017 Craig Errington received £19,375 in respect of his duties for the FCA Smaller Business Practitioner Panel.

Payments to Past Directors

No payments have been made to past Directors in 2017 other than:

- retirement benefits payable to previous Executive Directors; and
- salary, benefits, bonus, LTIP and pension benefits on the same basis as other Executives, paid to former Directors who have stood down from the Board but who remain with the Society in other roles.

Payments for Loss of Office

Liz McKenzie left the Society on 31 October 2017 following an organisational restructure. She received a payment of £361,159, reflecting contractual compensation and compensation for loss of office. The Remuneration Committee has also agreed to treat Liz McKenzie as a 'good leaver' for the purpose of paying the 2017 annual bonus and remaining Long Term Incentive Plan payments. Bonus and LTIP payments for the year ending 31 December 2017 have been included in the individual elements of remuneration above.

Having previously announced his intention to retire at the 2018 AGM, our Chair Bryan Jackson confirmed he would do so early, on 31 December 2017, following a successful transition with the Chair Designate. Consequently, he received a payment of £51,171, reflecting contractual compensation and compensation for loss of office.

Performance Graph

The chart alongside shows Group Operating Profit as a percentage of budget for the last five years. This is used in the assessment of annual bonus and the financial performance element of the LTIP. For 2016 and later, Group Operating Profit is post project costs. Prior to 2016, Group Operating Profit did not include project costs.

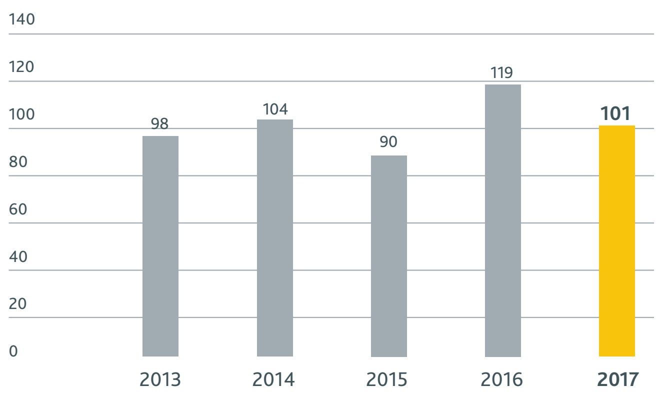


Table of Historic CEO Data

Year	CEO salary (£'000)	CEO single figure of remuneration (£'000)	Annual bonus pay out against maximum opportunity (%)	LTIP vesting rates against maximum opportunity (%)
2017	**482**	**936***	**63**	**74**
2016	473	870	74	67
2015	463	836	32	62
2014	453	966	60	71
2013	412	1,078**	72	65

* The single figure amount includes the deferred elements of the new bonus structure as well as vesting of historic LTIP awards.

** Includes one-off payment of £300,000 made to Craig Errington in 2013 in respect of giving up a commitment previously made by the Society to offset the personal tax payable on lump sum benefits in excess of the Lifetime Allowance.

Relative Importance of Spend on Pay

Pay is a significant element of Society expenditure, representing 60% (2016: 59%) of operating expenses for the Group.

	2017 (£m)	2016 (£m)	Change (%)
Operating expenses	**163.2**	165.8	-2%
Overall expenditure on pay	**90.2**	89.5	0%

Remuneration Committee Members and Advisers

The remuneration of the Executive Directors and the other members of the Executive is determined by the Remuneration Committee. The remuneration of the Chair is determined by the Board and the remuneration of the other Non-Executive Directors is determined by the Chair and Group Chief Executive. The members of the Remuneration Committee are all independent Non-Executive Directors of the Society. During the year the Committee members were Chris Brinsmead (Chair), Bryan Jackson (Society Chair), and Philip Green. Nathan Moss replaced Bryan Jackson on the Committee with effect from 1 January 2018.

The Committee was supported during the year by the Director of HR and Corporate Services, the Compensation and Benefits Manager and the Group Chief Executive. The Society's Chief Risk Officer provides input on the Executive Remuneration Framework design and application. The Risk Committee assesses Executive behaviours and Society performance, considers whether any inappropriate risks have been taken and makes recommendations to the Remuneration Committee accordingly. No individual takes part in the discussion on their own remuneration.

In performing its duties, the Remuneration Committee draws on the advice of independent external consultants. During the year, the Committee received advice on market levels of pay and bonus, best practice and disclosure requirements from Deloitte LLP. Deloitte were appointed following the Society's standard procurement processes and subject to the agreement of the Remuneration Committee. Deloitte is a founder member of the Remuneration Consultants Group, and as such, voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK. Deloitte also provided internal audit co-sourcing services and other professional services to the Society during the year.

The total cost of advice to the Remuneration Committee on Directors' remuneration matters during the year was £25,440 for Deloitte and £10,794 for New Bridge Street in respect of their work on the construction of the balanced scorecard approach for variable pay.

Statement of Voting at 2017 Annual General Meeting

The following table sets out the number of votes cast, number of votes for, and against, and abstentions for the advisory vote on the Directors' Remuneration Policy and Annual Report on Remuneration at the Society's AGM held in May 2017.

Resolution text	Votes for	Votes against	% For	Withheld
To approve the Directors' Remuneration Policy — advisory vote only	3,967	295	93.1	70
To approve the Annual Report on Remuneration – advisory vote only	4,071	189	95.6	68

Chris Brinsmead CBE
Chair of the Remuneration Committee
29 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Society and Group financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and the Group and of the profit or loss of the Group for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 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.

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

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

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

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

Statement of Disclosure of Information to Auditors

In the case of each Director in office at the date the Directors' Report is approved:

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

By Order of the Board

D. P. Bright

Doug Bright
Company Secretary
29 March 2018

VALUATIONS AND BONUS DECLARATIONS

The Directors, having taken advice from the Actuary following his annual investigation of the long-term fund, have declared bonuses for the year ended 31 December 2017 which in value total £111.4m (2016: £96.2m).

Ordinary life assurance business	
Standard with profit policies	1.00% of basic sum assured (2016: 1.25%) and 1.75% of existing bonuses (2016: 2.00%)
Unitised with profit policies (Gross of management charge)	2.00% of existing bonuses (2016: 2.50%)
Pension business	
Conventional with profit policies (including paid-up policies)	0.10% of capital amount (2016: 0.20%) and 0.20% of existing bonuses (2016: 0.40%)
Unitised with profit policies (Series 1) (Gross of management charge)	3.25% of value of units (2016: 3.75%)
Unitised with profit policies (other Series) (Gross of management charge)	2.50% of value of units (2016: 3.00%)
Industrial life assurance business (Gross of management charge)	0.50% of basic sum assured (2016: 0.75%)
With Profit ISA (Gross of management charge)	2.50% of value of units (2016: 3.00%)

Examples of amounts payable on maturity on 1 July 2018 and 1 July 2017 are as follows:

	Age	Term	Premium per month	2018	2017
Ordinary life assurance business	30	25 years	£50	£37,045	£37,613
	30	30 years	£50	£69,063	£67,077
Pension business	35	30 years	£200	£378,560	£371,844
	30	35 years	£200	£849,259	£855,080
Industrial life assurance business	35	30 years	£12 4 weekly	£14,390	£13,617

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

Ordinary life assurance business	1.75% of basic sum assured (2016: 1.75%) and 4.25% of existing bonuses (2016: 4.25%)
Pension business Pure endowments	1.25% of the cash sum secured and the existing bonuses (2016: 1.25%)

This is an extract of the full declaration.

DIRECTORS' REPORT

The Directors present their Annual Report and audited Consolidated Financial Statements for the year ended 31 December 2017.

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 2017 continued to be the transaction of long-term insurance business in the UK, namely life assurance, pensions and income protection insurance in the form of reviewable, with profits and unit-linked contracts and acting as a financial adviser. Other financial services undertaken included mortgage broking, retail banking, unsecured retail and commercial lending, unit trust management, acting as a general insurance broker and providing dental patient membership plans.

Review of Business and Future Developments

The Society's business is reviewed by the Chair on pages 2 and 3 and in the Strategic Report on pages 4 to 22. The year-end financial position is considered satisfactory given the ongoing underlying volatility of markets and the general outlook. As set out in those statements, the Society is projecting further growth in 2018 and beyond, based on expansion and ongoing improvements in its current method of operation.

The Key Performance Indicators, on which the Board and Management principally focus, are discussed in the Strategic Report and summarised in the Performance section on page 7. These include the Society's Operating Profit, New Business, Premium Income and investment returns. 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 66 to 115 show the results for the year ended 31 December 2017 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, the Society's Chief Actuary carried out a valuation of the Society's assets and liabilities as at 31 December 2017. 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 49.

Risk Management

Details of the key risks to the Society and its approach to risk management are set out on pages 18 to 21 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 page 24.

Following a performance evaluation, the Board is satisfied that each of the Directors continues to perform effectively and with commitment to their role.

All Directors will be standing for re-election at the Society's AGM on 24 May 2018. None of the Directors have an interest in the shares of the Society's subsidiaries.

Corporate Responsibility

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

Employee Involvement

During the year, the policy of providing employees with information about the Society has been continued through 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, religion or disability. It is the Society's policy to give full consideration to suitable applications for employment by people with disabilities. Opportunities also exist for employees of the Society who become disabled to continue in their employment or to be trained for other positions in the Society's employment.

Charitable Donations

Charitable donations amounted to £768,000 (2016: £387,000). Over £415,000 in grants was allocated to nearly 100 projects via the Wesleyan Foundation. We made our final payment to support the opening of Magnolia House at Birmingham Children's Hospital of £253,000 (2016: £350,000). A number of charitable events were supported by employees where their personal contribution was matched £1 for £1 by the Society.

Charitable recipients	**Donations (£000s)**
Foundation	415
Birmingham Children's Hospital	253
Other charities	100
Total	768

Independent Auditor

A resolution to reappoint Ernst and Young LLP as Auditor to the Society will be proposed at the AGM.

D. P. Bright

Doug Bright
Company Secretary
29 March 2018

REPORT FROM THE AUDIT COMMITTEE

Andrew Neden

Membership and Role of the Committee

The members of the Committee at 31 December 2017 were:

Andrew Neden (Chair)
Nigel Masters
Nathan Moss

Nathan Moss joined the Committee in July 2017 on his appointment to the Board. Following his appointment as Chair of the Society with effect from 1 January 2018, Nathan stood down from the Committee and was replaced by Martin Bryant.

The Company Secretary acts as secretary to the Committee. The Audit Committee meets at least five times a year and has an agenda linked to events in the Society's financial calendar, including approving any press releases to the market on financial reporting.

The Board considers that all the members of the Committee are independent and bring significant and relevant skills and experience to the function of the Committee. All members undertake induction training and continuing professional development. Andrew Neden, formerly a partner in KPMG and Nigel Masters, former chair of the Institute of Actuaries, are considered by the Board to have recent and relevant financial experience.

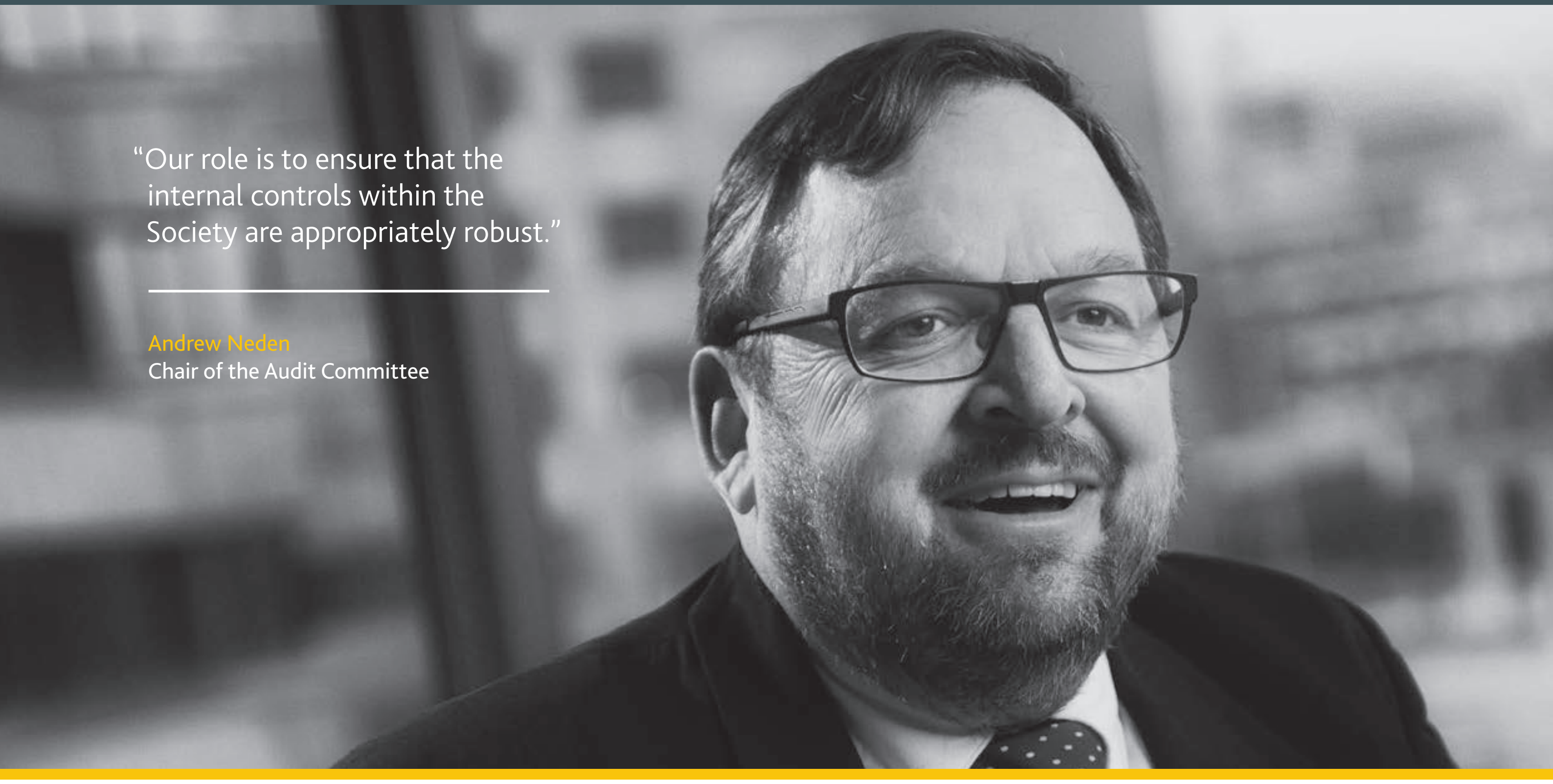
The terms of reference of the Audit Committee include all the matters required under the UK Corporate Governance Code and Prudential Regulation Authority Rules and follow FRC guidance, playing a key role in assisting the Board with regard to financial reporting (the Annual Accounts and submissions to the Prudential Regulation Authority including those for subsidiary companies) and to ensuring that the internal controls (including financial, operational and compliance controls and risk management processes) within the Society are appropriately robust.

The Committee invites to its meetings members of the Executive and their direct reports so they can answer questions and provide first-hand explanations of the controls they have in place to mitigate the Society's risks and to provide direct responses to any matters raised by Corporate (internal) or external Audit in their reports to the Committee. The external Auditor, Ernst & Young LLP, attends most of the Committee's meetings, particularly when financial reporting is being considered. The Committee holds private meetings with each of the Head of Corporate Audit, the Head of Compliance, the Chief Financial Officer, the Chief Actuary and the external Auditor at least once a year.

Summary of Key Activities During 2017 by Which the Audit Committee Discharged its Responsibilities:

During the year the Committee:

- reviewed the proposed internal audit plan for the coming year to ensure that it addressed key areas of risk and that there was appropriate co-ordination with the Compliance function and external Auditor;
- approved the Group's internal Compliance function plans;
- monitored the Group's internal controls by considering a number of third party, external and internal audit and Compliance function reports on the key controls and risk management functions. Ensured that significant findings and recommendations made and management's proposed responses were received, discussed and appropriately acted upon;
- specifically, the Committee reviewed the quality of controls and the risk of fraud, including in revenue recognition;
- reviewed the arrangements through which employees can raise concerns about possible irregularities relating to financial reporting or other matters including reviewing all whistleblowing reports; and
- recommended to the Board the Society's Solvency II Reporting Policy, Solvency and Financial Condition Reports, Regular Supervisory Reports and Valuation Reports.



"Our role is to ensure that the internal controls within the Society are appropriately robust."

Andrew Neden
Chair of the Audit Committee

Significant Judgements, Key Assumptions and Estimates

The Audit Committee pays particular attention to matters it considers to be important by virtue of their impact on the Group's results and remuneration of senior management, or the level of complexity, judgement or estimation involved in their application on the consolidated financial statements. The main areas of focus during the year remain consistent with those identified in 2016 and are set out in the following significant issues table:

Area of focus	Audit Committee action in year	Conclusion/outcome
The methods and assumptions used in deriving the material components of the Society's insurance liabilities in particular:		
The expense assumptions - both the current level of expenses incurred in maintaining a policy and the expected level of increase in expenses over the lifetime of the policies in force.	The Committee considered the methods used to determine the current level of expenses to maintain policies and the expected level of future increases, taking into account recent experience and future plans.	We concurred with the expectation of a lower long-term expected level of expense inflation, reflecting the policy count projections and budgeted costs implied by our strategic plan, and the level of expense reductions achieved in the year.
The demographic assumptions for mortality, longevity, persistency and morbidity.	The Committee reviewed management's analysis of actual experience and their proposed changes to assumptions, taking account of both this experience and external market information. In particular, the Committee reviewed reports from management proposing further weakening of the longevity assumptions used to value the insurance liabilities to reflect higher observed mortality experience for some classes of business and updated analysis of the expected levels of improvement in longevity going forward.	The Committee agreed with the conclusions of management that some further weakening of the longevity assumptions used to value the insurance liabilities was appropriate and also concurred with the other proposed changes to assumptions where the effect on the balance sheet was less significant.
Pension scheme accounting.	We apply FRS 102 when reporting on the costs of the pension scheme in our report and accounts. This is intended to reflect the most likely cost of providing those long-term benefits to current and former employees. Assumptions are made as to the likely future cost based on future investment returns on assets held, increases in liabilities due to expected cost of living increases and other factors.	The Committee has considered these judgements in the light of experience and current markets and has concluded that the assumptions used to calculate the pension scheme surplus are in line with accounting standards and market practice.

REPORT FROM THE AUDIT COMMITTEE
continued

Area of focus	Audit Committee action in year	Conclusion/outcome
Other Areas		
Solvency and Financial Condition Report and Regular Supervisory Report	The Committee reviewed drafts of the Solvency and Financial Condition Report and Regular Supervisory Report which were produced for the first time during 2017 and obtained reports from management providing assurance that the reports met regulatory requirements.	The Committee was satisfied that the final versions of the documents appropriately incorporated the input that had been provided and could be recommended to the Board for approval.
Reporting to members	The Committee reviewed early drafts of the Annual Report and raised points with management. The Committee considered whether the Annual Report and Accounts taken as a whole was fair, balanced and understandable, providing the information necessary for stakeholders to assess the Society's performance, business model and strategy.	The Committee determined that the Annual Report and Accounts did meet these criteria and could be recommended to the Board for approval.

Internal Audit

Internal Audit undertake an annual planning exercise assessing which activities and controls should be subject to audit review based on the level of risk, the length of time since the most recent review and the assessment at that time of the control consciousness of the management team. Specific areas subject to Internal Audit review in 2017 included but were not limited to:

- information technology management;
- data governance;
- investments governance;
- information and cyber security, including cloud computing;
- the Society's transformation and strategic programmes;
- compliance effectiveness;
- key regulatory projects.

Following each review, recommendations for improvements in controls are discussed and agreed with management. The actions arising are tracked to ensure timely completion. Changes to the Group internal audit plan are reviewed and approved on a quarterly basis.

In accordance with the Institute of Internal Audit International Standards, an independent External Quality Assessment of the internal audit function was undertaken by KPMG LLP in the final quarter of 2016. The assessment did not identify any significant issues, though it did recommend various areas for improvement which were addressed in 2017. Internal reviews of the effectiveness of the Internal Audit function are undertaken annually with input from Committee members and management. The review considers the expertise and experience of the Internal Audit function, the function's plans and processes and the quality of its outputs. The outcome of the review undertaken in 2017 was generally positive, with only minor areas for development identified.

External Audit

The Committee:

- reviewed and approved the external Auditor's proposed audit scope and approach for the current year as set out in its 2017 audit plan, in the light of the Group's present circumstances and changes in regulatory and other requirements;
- discussed with the external Auditor any audit problems encountered in the normal course of audit work, including any restrictions on audit scope or access to information; and
- undertook a review of the effectiveness of the external audit process with input from Committee members and members of management who had been closely involved with the audit. The review considered the technical knowledge of the audit partner and the external audit team, their level of understanding of the Society's business model, the nature and robustness of the challenges raised and the efficiency of the audit process.

The Committee has a policy on the use of external auditors for non-audit services which precludes them from being engaged for such work if their independence or objectivity as external auditors would be impaired. This policy requires prior approval of the Committee for engagements where the fee is likely to exceed £50,000, and approval by the Chief Financial Officer or Chair of the Audit Committee for lower amounts, depending on the amount. The Committee was satisfied that all non-audit services provided during the year complied with policy.

PricewaterhouseCoopers LLP (or its predecessor firms) acted as the Society's external Auditor from 1988 to 2016. The Society undertook a formal tender process for the external audit appointment in 2016 with a view to changing auditor for 2017. Based on an assessment of audit quality, availability of key personnel, overall fit with the Society and fees, Ernst & Young LLP were the preferred audit firm. A resolution proposing the appointment of Ernst & Young LLP as external Auditor was put to the AGM held on 11 May 2017. Over 97% of votes cast were in favour and Ernst & Young LLP were duly appointed. The current external audit partner is Andy Blackmore who has held this position since Ernst & Young were appointed. The Society expects to rotate its external Auditor at least every ten years, and its audit partner at least every five years, going forward. The outcome of the review of the effectiveness of the external audit process undertaken in March 2018 was satisfactory and as a consequence a resolution for the reappointment of Ernst & Young LLP as external Auditor will be put to the AGM.

Committee's Effectiveness

The Committee reviews its own effectiveness annually with input from Committee members, management and the external Auditor. The Committee also reviews the effectiveness of each meeting prior to conclusion to ensure continuous improvement. As part of a wider board exercise each member discusses their training requirements to ensure familiarity with regulatory, accounting and wider market issues.

Andrew Neden
Chair of the Audit Committee
29 March 2018

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF WESLEYAN ASSURANCE SOCIETY

Opinion

In our opinion:

- Wesleyan Assurance Society's group financial statements and Society financial statements (the "financial statements") give a true and fair view of the state of the group's and of the Society's affairs as at 31 December 2017 and of the group's result for the year then ended;
- the group and Society financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Wesleyan Assurance Society which comprise:

Group	Society
Consolidated balance sheet as at 31 December 2017	Balance sheet as at 31 December 2017
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 25 to the financial statements including a summary of significant accounting policies
Related notes 1 to 25 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group and Society financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

The directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the 'Code'), as if the Society were a premium listed company. As a result, we have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 18 to 21 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 22 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 32 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 22 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	▶ Valuation of technical provisions - actuarial expense and demographic assumptions; ▶ Pension scheme surplus valuation; ▶ Valuation of assets with more complex valuation methodologies - property and derivatives.
Audit scope	▶ We performed an audit of the complete financial information of the Society and audit procedures on specific balances for a further six components; ▶ The components where we performed full or specific audit procedures accounted for 99.7% of Total assets.
Materiality	▶ Overall Group materiality of £20m which represents 3.05% of the Fund for Future Appropriations.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF WESLEYAN ASSURANCE SOCIETY continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of technical provisions: actuarial demographic and expense assumptions The valuation of the technical provisions as at 31 December 2017 is £5,957.6m (2016: £5,581.0m) as disclosed in note 14 to the financial statements. The technical provisions are inherently uncertain due to the dependency on a number of key assumptions, including morbidity, longevity, persistency and expenses. In addition, these assumptions have different sensitivities, and for some assumptions small changes will have a material impact on the Group's reported result. Demographic assumptions are set based on internal and external experience, overlaid with the application of judgement in particular around future trends and external factors. Expense assumptions are set based on the anticipated costs associated with administering the business, including expenses inflation as well as the split between acquisition / maintenance and between different classes of business.	We tested procedures to ensure that the appropriate data was feeding into the demographic and expense assumptions process accurately and completely. We reviewed the backing spreadsheets to ensure data was being analysed correctly and no hardcoded assumptions/ adjustments existed. We reviewed judgements made (such as the weight put on recent years' experience), and explanations provided by management as to why experience had changed, to ensure they were reasonable. We reviewed the expenses approach against Solvency II guidance (being the basis of measurement of technical provisions within the statutory accounts), and questioned management over the allowance for expected new business. We concluded on whether the final assumptions were within a reasonable range based on our expert judgement, management's internal experience analysis and the results of assumptions used by peers as per our Hot Topics survey.	We determined that the actuarial assumptions used by management are reasonable based on the analysis of experience to date, industry practice and the financial and regulatory requirements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Pension scheme surplus valuation The Group has a defined benefit pension scheme net surplus of £83.4m (2016: £80.2m) as disclosed in note 23 to the financial statements. This is a material balance for the Group and is sensitive to asset valuations, underlying assumptions over the pension scheme liabilities and the determination of whether the Society has the right to the surplus. The valuation of the pension scheme requires the application of significant levels of judgement in choosing appropriate assumptions. Even minor changes in a number of key assumptions can have a material impact on the overall calculation of the liability and when combined with the market risk impact on the scheme assets can result in volatility in the reported net results.	We performed a walkthrough of the pension scheme valuation understanding the data inputs to the process and the procedures performed by the management expert to value the scheme assets and liabilities. In conjunction with our pension actuarial specialist we audited the assumptions included in the assumptions and accounting reports prepared by the management expert 'Aon Hewitt'. This included benchmarking the proposed management assumptions to other pension schemes of similar size and duration. We tested the completeness and accuracy of the data used by agreeing a sample of member data back to source documentation. We confirmed existence of 100% of the assets within the scheme through custodian confirmations. We agreed the fair value of all of the scheme assets to available market prices. We reviewed the Trust Deed and Rules to confirm that the Society has the legal right to a refund of any surplus upon winding up of the pension scheme.	Overall we have concluded that the valuation of the surplus is materially correct and the recognition of the surplus in the Society balance sheet is appropriate. We note that the assumptions used by the management expert to value the scheme liabilities are in the middle of a reasonable range.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF WESLEYAN ASSURANCE SOCIETY continued

Valuation of assets with more complex valuation methodologies – Derivatives and Investment Property The Group investment portfolio contains asset classes whose valuation is subject to significant judgement and volatility, including derivatives and investment properties which have a total value of £447.4m (2016: £391.5m) (derivatives - £142.8m (2016: £135.5m) and investment property – £304.6m (2016: £256.0m)) as disclosed in notes 10(a) and 10(c) to the financial statements. Any changes to the judgments included in the valuation of these assets could result in a material difference in the valuation.	We performed walkthroughs over the investment valuation processes for these asset classes. This included understanding the procedures in place through which the Society gains assurance over the counterparty valuation of the derivatives and the property valuations provided by management's expert. Using internal derivative valuation specialists, we performed independent valuations of the entire derivative portfolio and obtained custodian confirmations to verify existence of the contracts. We utilised internal property valuation specialists to independently value 23 investment properties (representing 48% of the balance). Separately, we assessed the competence of management's expert for the remainder of the properties.	We have concluded that the valuation of the derivative portfolio is at the conservative end of a reasonable range. We have concluded that the valuation of the property portfolio is at the middle of a reasonable range.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the ten reporting components of the Group, we selected six components covering entities which represent the principal business units within the Group.

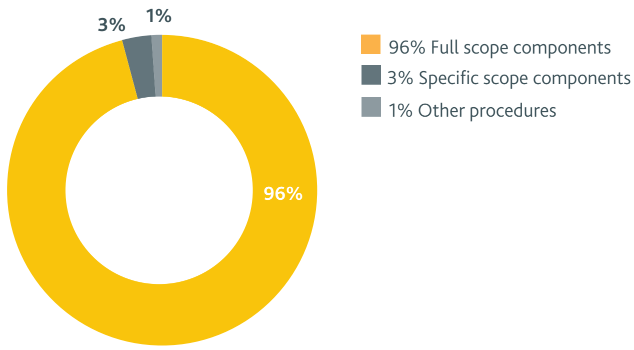
Of the six components selected, we performed an audit of the complete financial information of one component ("full scope component") which was selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99.7% of the Group's Total assets and 99.8% of Total liabilities. For the current year, the full scope component contributed 96.2% of the Group's Total assets and 96.6% of Total liabilities. The specific scope components contributed 3.4% of the Group's Total assets and 3.2% of Total liabilities. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

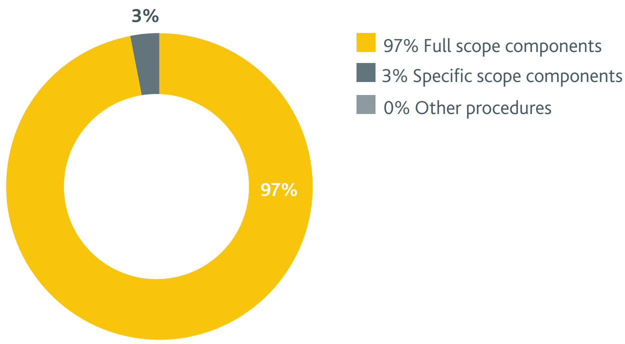
Of the remaining four components that together represent 0.3% of the Group's total assets and 0.2% of Total liabilities, none are individually greater than 1% of the Group's total assets, Total liabilities or Funds for Future Appropriations. For these components, we performed other procedures, including testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Total assets



Total liabilities



Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Audit procedures over the full scope component and four of the five specific scope components were performed directly by the primary audit team. For the remaining one specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary team interacted regularly with the component team where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £20 million, which is 3.05% of Funds for Future Appropriations. We believe that Funds for Future Appropriations provides us with the most appropriate basis for determining materiality as it reflects the underlying interests of the members of the Society. In their prior year audit, PwC adopted a materiality of £20m based on 3.1% of Funds for Future Appropriations.

We determined materiality for the Parent Company to be £20 million, which is 3.05% of Funds for Future Appropriations. In their prior year audit, PwC adopted a materiality of £20m based on 3.0% of Funds for Future Appropriations.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £10m. We have set performance materiality at this percentage due to this being our first year as auditor.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF WESLEYAN ASSURANCE SOCIETY continued

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of Group performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2m to £10m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, including the Overview, Strategic Report and Our Governance sections set out on pages 1 to 55, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

As a result of the directors' voluntary reporting on how they have applied the Code, we also have nothing to report in regard to our responsibility under ISAs (UK) to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 48 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on pages 52-55 –the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Other voluntary reporting relating to the Corporate Governance Statement

The Society voluntarily prepares a corporate governance statement that includes the information with respect to internal control and risk management systems and about share capital structures required by the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority. The directors have requested that we report on the consistency of that information with the financial statements.

In our opinion, the information given in the Corporate Governance Statement set out on pages 26-32 and in the Audit Committee Report on pages 52-55 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

The Society's voluntary Corporate Governance Statement includes details of the Society's compliance with the Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to the provisions of the Code specified for auditor review by the Listing Rule 9.8.10R(2) of the Financial Conduct Authority as if the Society were a premium listed company. We have nothing to report that the parts of the directors' statement relating to the company's compliance with the Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the Code.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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 returns adequate for our audit have not been received from branches not visited by us; or
- the Society financial statements are not in agreement with the accounting records and returns; 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 48, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF WESLEYAN ASSURANCE SOCIETY continued

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Group and the Society and determined that the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA');
- We obtained a general understanding of how the Society complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Society and its subsidiaries and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework ('RMF') and internal control processes;
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items;
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Society's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA;
- The Society operates in the insurance and banking industries which are highly regulated environments. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate;
- We assessed the susceptibility of the Group and the Society's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Society and its subsidiaries have established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the procedures over the actuarial assumptions noted above and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Other matters we are required to address

- We were appointed by the Society on 29 September 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.
- The period of total uninterrupted engagement is 1 year, covering the year ending 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Ernst & Young LLP

Andy Blackmore (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
29 March 2018

Notes:

1. The maintenance and integrity of the Wesleyan Assurance Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

OUR FINANCIALS

OUR FINANCIALS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit and Loss Account			
Technical Account - Long-term Business			
Earned premiums, net of reinsurance	3(a)		
Gross premiums written		342.4	282.7
Outward reinsurance premiums		(10.8)	(13.4)
		331.6	269.3
Investment income	4	455.0	379.4
Unrealised gains on investments	4	55.4	489.9
Other technical income	5(a)	15.7	13.8
Total Technical Income		857.7	1,152.4
Claims incurred, net of reinsurance	6		
Claims paid - gross amount		(296.2)	(281.8)
- reinsurers' share		18.5	21.3
- net of reinsurance		(277.7)	(260.5)
Change in the provision for claims		2.3	0.5
		(275.4)	(260.0)
Change in other technical provisions, net of reinsurance	14		
Long-term business provision - gross amount		(301.9)	(583.7)
- reinsurers' share		(14.4)	3.2
		(316.3)	(580.5)
Net operating expenses	7	(96.6)	(89.5)
Curtailment Gain	7 & 23	-	14.0
Total operating expenses		(96.6)	(75.5)
Investment expenses and charges	4	(4.3)	(4.0)
Allocation of net investment return to investment contracts	14	(126.3)	(178.8)
Other technical charges	5(b)	(8.9)	(4.5)
Tax attributable to the long-term business	9	(17.3)	(31.2)
Change in present value of future profits on linked non-profit business written in the With Profits Fund		1.8	5.1
Transfers to the Fund for Future Appropriations	13	(14.4)	(23.0)
		(169.4)	(236.4)
Total Technical Charges		(857.7)	(1,152.4)
Balance on the Technical Account - Long-term Business		-	-
Other Comprehensive Income			
Actuarial gain on pension scheme	23	1.0	8.3
Revaluation gain on tangible fixed assets	12	5.5	1.2
Transfers to the Fund for Future Appropriations	13	(6.5)	(9.5)
Other Comprehensive Income for the year		-	-
Total Comprehensive Income for the year		-	-

The total transfer to the Fund for Future Appropriations was £20.9m (2016: £32.5m).

The whole of the above results derive from continuing operations.

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the Fund for Future Appropriations.

The Society has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the Society Statement of Comprehensive Income.

BALANCE SHEETS

as at 31 December 2017

		Group		Society	
	Note	2017 £m	2016 (Restated) £m	2017 £m	2016 (Restated) £m
Assets					
Intangible assets					
Intangible assets	12(a)	**76.6**	59.6	**63.2**	44.2
Goodwill	10(e)	**52.6**	59.8	**-**	-
Investments					
Land and buildings	10(a)	**304.6**	256.0	**304.6**	256.0
Group undertakings and participating interests	20	**-**	-	**92.4**	120.8
Other financial investments	10(d)	**4,899.6**	4,608.1	**4,758.1**	4,500.3
		5,204.2	4,864.1	**5,155.1**	4,877.1
Value of in-force linked non-profit business		**47.7**	45.9	**47.7**	45.9
Assets held to cover linked liabilities	10(b)	**1,269.8**	1,195.1	**1,269.8**	1,195.1
Reinsurers' share of technical provisions					
Long-term business provision	14	**85.6**	100.0	**85.6**	100.0
Claims outstanding		**0.5**	0.4	**0.5**	0.4
		86.1	100.4	**86.1**	100.4
Debtors					
Debtors arising out of direct insurance operations - policyholders		**1.5**	1.5	**1.5**	1.5
Debtors arising out of reinsurance operations		**3.5**	3.4	**3.5**	3.4
Other debtors	11	**26.5**	34.2	**2.5**	2.8
		31.5	39.1	**7.5**	7.7
Other assets					
Tangible assets	12(b)	**28.6**	23.2	**25.4**	20.6
Cash at bank and in hand		**56.6**	47.7	**22.9**	14.8
		85.2	70.9	**48.3**	35.4
Prepayments and accrued income					
Accrued interest and rent		**24.3**	22.1	**24.9**	22.1
Other prepayments and accrued income		**4.6**	5.7	**-**	-
		28.9	27.8	**24.9**	22.1
Total Assets (excluding pension asset)		**6,882.6**	6,462.7	**6,702.6**	6,327.9
Pension Asset	23	**89.6**	86.1	**89.6**	86.1
Total Assets (including pension asset)		**6,972.2**	6,548.8	**6,792.2**	6,414.0

The notes on pages 69 to 115 form an integral part of these financial statements.

BALANCE SHEETS continued

as at 31 December 2017

	Note	Group 2017 £m	Group 2016 £m	Society 2017 £m	Society 2016 £m
Liabilities					
Non-current liabilities:					
Fund for Future Appropriations	13	**655.7**	634.8	**662.2**	659.8
Technical Provisions					
Long-term business provision	14	**4,687.8**	4,385.9	**4,687.8**	4,385.9
Claims outstanding		**7.8**	10.0	**7.8**	10.0
		4,695.6	4,395.9	**4,695.6**	4,395.9
Technical provisions for linked liabilities	14	**1,269.8**	1,195.1	**1,269.8**	1,195.1
Provisions for other Risks	15	**92.2**	83.3	**91.1**	81.9
Deposits received from Reinsurers	16	**40.4**	47.9	**40.4**	47.9
Deposits from banks	2	**12.0**	-	**-**	-
Current liabilities:					
Creditors					
Creditors arising out of direct insurance operations		**1.6**	1.3	**1.6**	1.3
Creditors arising out of reinsurance operations		**0.6**	0.6	**0.6**	0.6
Other creditors	17	**26.9**	47.5	**26.9**	27.7
Customer bank accounts	2	**152.7**	116.4	**-**	-
		181.8	165.8	**29.1**	29.6
Accruals and Deferred Income		**24.7**	26.0	**4.0**	3.8
Total Liabilities		**6,972.2**	6,548.8	**6,792.2**	6,414.0

The notes on pages 69 to 115 form an integral part of these financial statements.

The financial statements on page 66 to 115 were approved by the Board of Directors on 29 March 2018 and signed on its behalf by:

Nathan Moss
Chairman

Craig Errington
Group Chief Executive

NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

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 have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance contracts", and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

A summary of the more important Group accounting policies is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements incorporate the assets, liabilities and results of the Society and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiary undertakings acquired or sold during the year are included in the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities at the date of acquisition are recorded at their fair values reflecting their condition at that date. The profits and losses before tax of subsidiaries are consolidated through Other Technical Income and Other Technical Charges respectively within the Profit and Loss Account, in line with FRS 103 IG 2.60 implementation guidance.

The Group is exempt from the requirements of section 7 of FRS 102 to prepare a cash flow statement, as mutual life assurance companies are excluded from compliance with this section.

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.

ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Technical provisions involve a higher degree of judgement and complexity with significant assumptions and estimates involved in the calculation, including discount rates, longevity, persistency and morbidity. These judgements and estimates have been disclosed in Note 14. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

1. ACCOUNTING POLICIES continued

(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.

CLAIMS

Claims payable on death 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 the claim becomes due for payment. Surrenders are recognised either when paid or if earlier, the date on which following notification, 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.

The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

LIABILITIES

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

(II) INVESTMENT CONTRACTS

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

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

INVESTMENTS

(I) LAND AND BUILDINGS

Investment properties are held at fair value, measured annually with changes in fair value recognised in the statement of comprehensive income. The basis of valuation used is open market value net of cost of purchase.

Properties in the portfolio including those occupied by the Society are valued by external professionally qualified valuers.

The owner occupied share of the Head Office property is separated from the share of the property which is rented out, and is held as a tangible fixed asset.

(II) INVESTMENTS IN GROUP UNDERTAKINGS

In the Society's balance sheet, 'Investments in Group undertakings' are stated at fair value through profit and loss, for each individual subsidiary company in accordance with section 14 of FRS 102. The valuation techniques and assumptions used for determining fair value have been disclosed in Note 20.

(III) OTHER FINANCIAL INVESTMENTS

The Society has chosen to apply the recognition and measurement provisions of IAS 39, and the disclosure requirements of FRS 102 sections 11 and 12.

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 and 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 and 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 this date. The fair values of other unlisted investments, for which no active market exists, are established by the Directors using valuation techniques. These include use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other pricing models.

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

Unrealised gains and losses represent the difference between the fair value of financial assets at the balance sheet date and the original cost, or if they have been previously valued, that valuation at the balance sheet date. The movement in unrealised gains and losses recognised through the statement of comprehensive income 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 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.

Other financial assets are recognised at amortised cost.

(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.

COMMISSION INCOME

Commission income within Wesleyan Financial Services is received from Wesleyan Assurance Society and third party manufacturers. Protection product income and commission income is recognised when the service is provided. General insurance commission income is recognised when the insurance contracts have been sold irrespective of the period of insurance.

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 statement of comprehensive income. Fair values are obtained using valuation techniques performed by third parties, including discounted cash flow models and option 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.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

1. ACCOUNTING POLICIES continued

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

ASSETS HELD TO COVER LINKED LIABILITIES

Assets held to cover linked liabilities reflect the terms of the related policies and are valued at fair value through the profit and loss account.

IMPAIRMENT CHARGE

At each reporting date financial assets measured at amortised cost are reviewed for indicators of impairment. If the recoverable amount of an asset is less than its carrying amount, then the value of the asset is impaired to its recoverable amount.

Specific impairment provisions are made against advances by Wesleyan Bank Limited ('the Bank') for which recovery is considered to be doubtful and represent the quantification of actual and expected losses from identified accounts. The amount of specific 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. The current level of arrears has been measured against the historical data to arrive at a percentage provision to be applied against each arrears tranche.

Impairment charges for credit losses are deducted from loans and advances in the balance sheet and are charged to the statement of comprehensive income.

PENSION COSTS

The Group operates a defined benefit pension scheme, which was closed to new members with effect from 1 October 2009, and closed to future accrual from 5 April 2016. 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 and has rights to the asset upon wind up of the scheme.

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 statement of comprehensive income on a straight-line basis over the period in which the increased benefits vest. The past service cost for 2016 also includes a curtailment gain on closure of the scheme to future accrual.

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 other comprehensive income.

PRESENT VALUE OF FUTURE PROFITS ON LINKED NON-PROFIT BUSINESS WRITTEN IN THE WITH PROFITS FUND

For investment contracts, the value of future profits from linked business written by the Society is recognised as an asset. Part of the asset's value represents the value earned in charges in order to repay initial expenses incurred at point of new business that have not yet been recouped from the policy.

The value assigned to this asset is calculated in accordance with Solvency II rules. The methodology and assumptions are based on our best estimate of future experience and the risk-free yield, less a suitable adjustment for risk and uncertainty ('risk margin').

REINSURERS' SHARE OF TECHNICAL PROVISIONS

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

GOODWILL

Goodwill is capitalised in the balance sheet at cost and amortised through the statement of comprehensive income on a straight-line basis over its useful economic life of between ten and fifteen years. Goodwill is reviewed annually for indicators of impairment. The gain or loss on subsequent disposal of a subsidiary or associated undertaking will include any attributable unamortised goodwill.

TANGIBLE FIXED ASSETS

Tangible assets, except for freehold buildings, are stated at valuation or at cost less depreciation, where 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:

- Freehold buildings – thirty to fifty years;
- Computer hardware – three to ten years;
- Furniture and fittings – ten to twenty years;
- Motor vehicles – three to four years;
- Equipment for hire – term of hire agreement;
- Assets in course of construction – no depreciation charged until construction completed.

Freehold buildings are revalued annually with changes in fair value recognised in other comprehensive income. The basis of valuation used is open market value net of cost of purchase.

Tangible fixed assets are reviewed annually for indicators of impairment. 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 fair value less costs to sell.

INTANGIBLE ASSETS

Intangible assets relate to computer software development, and customer listings acquired on acquisition. Customer listings are valued based on expected future income, discounted to their present value. These are being amortised over their expected economic life of ten years.

In the current year, computer software has been reclassified from tangible fixed assets to intangible assets. Computer software is valued at cost less amortisation, with assets being amortised on a straight line basis over a four to ten year period. Assets in course of construction relate to software being developed.

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, tax and changes in the technical provisions in each accounting period.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

1. ACCOUNTING POLICIES continued

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.

The long-term business provision is calculated using Solvency II methodology. Under Solvency II, the long-term business provision is broadly equivalent to the current amount the Society would have to pay for an immediate transfer of its obligations to a third party.

INSURANCE CONTRACTS AND PARTICIPATING INVESTMENT CONTRACTS

Actuarial best estimate assumptions are used to determine the amount and timing of future cash flows which make up the best estimate liabilities.

An additional provision is included by the Society to protect against adverse events that cannot easily be hedged. This 'risk margin', is defined as the cost of holding Solvency II regulatory capital over the lifetime of each insurance contract.

WITH PROFITS (PARTICIPATING) CONTRACTS

Provision is made for all bonus payments (declared and future, reversionary and terminal) estimated, where necessary, in a manner consistent with the Principles and Practices of Financial Management (PPFM).

The underlying liabilities are based on the aggregate value of policy asset shares reflecting the premiums, investment return, expenses and charges applied to each policy.

Some with profits policies also contain options and guarantees that can increase the benefits payable to the policyholder. The potential liability for these options and guarantees is determined using a stochastic model, which simulates future investment returns, asset mix and bonuses. 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 reductions will not be applied at specified times.

NON PARTICIPATING INSURANCE CONTRACTS

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.

TECHNICAL PROVISIONS FOR LINKED LIABILITIES

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

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

DEFERRED TAXATION

Deferred tax assets and liabilities are recognised on an undiscounted basis in accordance with the provisions of section 29 of FRS 102.

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, and that the obligation can be reliably measured. 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 and are depreciated over the shorter of the useful economic life of the asset or the length of the lease term. Assets are reviewed annually for indicators of impairment. Payments in respect of operating leases are charged to the statement of comprehensive income in the period to which they relate. Appropriate provisions are held when operating leases are considered to be onerous contracts (as defined under section 20 of FRS 102).

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 statement of comprehensive income for the period.

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

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 and Regulatory functions reporting to the Risk Committee.
- Relevant Executive Committee and the Risk Committee (the second line of defence).
- Corporate Audit provides independent assurance on the design and effectiveness of the overall system of internal control, including risk management and compliance, reporting to the Audit Committee (the third line of defence).

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

- The definition of the Society's appetite for the key risk types that it is exposed to.
- The production of management information which reports the Society's position relative to its risk appetite based on key risk indicators on a monthly basis.
- A review of the significant internal and external risks that may impact the Society and its target markets as part of the Society's strategic planning process.
- A process whereby significant new emerging risks are considered and reviewed by the Risk function on a regular basis. Findings are reported on an annual basis to the relevant Executive Committee, although risks are escalated as appropriate when identified.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

2. RISK MANAGEMENT continued

- Executives are required to review and approve ORCA reports that are relevant to their area of responsibility.
- A risk identification, categorisation and assessment methodology for operational risks.
- A specialist Group Security function to manage risk regarding information security and business continuity.
- Risk identification, management and governance procedures are in place 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 Society considers the market, credit, insurance and operational risks it faces 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). This is done through calculation of the Solvency Capital Requirements and internal capital risk appetite measures, as part of the Solvency II directive introduced in 2016.
- A Capital Plan focusing on the quantification of market, credit and insurance risk with the application of detailed modelling to assess the sensitivity of the Society's position to economic and business scenarios over a five year period.
- The Medical Sickness Society Fund (MSSF) is operated in accordance with the Scheme Merger documentation and is only exposed to risks arising from policies in MSSF itself.
- The Ordinary and Industrial Long-Term Business Fund (OILTBF) is exposed to the business risks of subsidiary companies as well as the business risks arising from the operation of long-term insurance itself. The Board decides whether to undertake a particular business risk and has the responsibility for reviewing and setting a limit on the scale of such risks, advised by the With Profits Committee. Where appropriate, limits will be set for individual risks.
- The OILTBF 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 risk management methodology with regards to its operations which is disclosed in its financial statements.

The Risk Committee 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.

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

LIQUIDITY RISK

The Society ensures that we are able to meet our financial obligations as they fall due, even in extreme circumstances. Our 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 Society has a Liquidity Policy in place, and regular monitoring takes place to ensure adherence to it, with appropriate allowance made for stress conditions within the monitoring.

The liquidity risk for the Bank, arising from the customer bank accounts and deposits from banks which is monitored regularly and reported on a monthly basis, is set out below:

	2017		2016	
	Customer bank accounts	**Deposits from banks**	Customer bank accounts	Deposits from banks
LIQUIDITY RISK	£m	£m	£m	£m
Repayable on demand	**55.8**	**-**	51.7	-
Three months or less but not on demand	**11.3**	**-**	6.8	-
One year or less but over three months	**49.5**	**-**	19.7	-
Five years or less but over one year	**36.1**	**12.0**	38.2	-
	152.7	**12.0**	116.4	-

The liquidity risk for other financial liabilities as listed in Note 10a is set out below:

	Group		Society	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Repayable on demand	**2.3**	2.2	**15.6**	11.2
Three months or less but not on demand	**24.2**	43.3	**10.9**	14.5
One year or less but over three months	**6.7**	8.2	**6.7**	8.2
Five years or less but over one year	**26.0**	29.5	**26.0**	29.5
More than five years	**10.3**	14.1	**10.3**	14.1
	69.5	97.3	**69.5**	77.5

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 held is at least at the minimum requirement for a Individual Liquidity Adequacy Standards (ILAS) firm as advised by the PRA. In normal market conditions, the stock is maintained with a cushion over the regulatory level as defined by the Bank's Board. Liquidity is monitored by means of a cash position report in accordance with the PRA's reporting requirements and reviewed on a daily basis. It should be noted that the bank has no access to any liquid assets held by the rest of the Group.

In excess of £6.3bn (2016: £5.9bn) of the Group's assets are either highly liquid or readily realisable and therefore available to support the Group's liabilities at limited notice.

FINANCIAL INSTRUMENTS – FAIR VALUE

Sections 11 and 12 of FRS 102 requires enhanced disclosures about fair value measurement and liquidity risk.

FRS 102 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 – The price of a recent transaction for an identical asset or liability provides evidence of fair value as long as there has not been a significant change in economic circumstances or significant lapse of time since the transaction took place.
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) with fair value estimated by using a valuation technique.

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

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

2. RISK MANAGEMENT continued

Financial Assets at fair value through statement of comprehensive income - Group

	At 31 December 2017				At 31 December 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities	3,236.7	20.7	-	3,257.4	3,027.9	20.2	-	3,048.1
Debt and other fixed income securities	2,190.8	-	-	2,190.8	2,065.8	-	-	2,065.8
Deposits with credit institutions	444.7	-	-	444.7	440.7	-	-	440.7
Derivatives								
Swaptions	-	-	131.4	131.4	-	-	122.8	122.8
Equity Put Option	-	-	11.4	11.4	-	-	12.7	12.7
Total Assets	5,872.2	20.7	142.8	6,035.7	5,534.4	20.2	135.5	5,690.1

BUSINESS RISK

Business risk is defined as the risks that external factors, such as a fall in demand for an organisation's products will result in a deterioration of the value of the Group's business model, and as the risk that internally generated activity, such as the large transformation projects and Merger and Acquisition activity do not deliver the expected return. The Society recognises the importance of maintaining business risk within the pre-established risk appetite limits for the prudent management of its business and to conform to relevant regulation on business risk in a risk-based and proportionate manner.

Business Risk arises for the Society through a number of internal and external events. External events include the impact of market and/or economic conditions on sales, tax and regulatory impacts such as capital gains tax changes and the regulatory initiatives, or actions of competitors. Recent examples of these events are the General Data Protection Regulations, the Markets in Financial Instruments Directive, and changes to GP Contracts. Internal events include the quality and range of products and services offered, internal infrastructure being unable to deliver customer need, and inappropriate strategic decisions taken.

As business risk is inherent in the Society's business model, the identification of business risks focuses on understanding the Society's business model in the context of the environment in which it operates, both internal and external, and the adaptability of the Society's business model to changes to both environments. On an annual basis, the Society identifies the environmental factors that could possibly affect its business strategy and these are used to determine the key business risks to the Society.

A number of controls are in place with regard to business risk, including:

- A clearly defined business strategy statement and set of strategic objectives with associated measures, targets and accountability attached to them as far as practically possible.
- Processes whereby the Society's strategy is translated into the initiatives and business plans of the business operating units appropriate governance processes in place as well as sufficient resources available to ensure that delivery of strategic objectives, associated initiatives and business plans are tracked, reviewed and evaluated on a regular basis.
- A process in place to ensure that executive management regularly review progress towards strategic objectives and implementation of strategy.
- An annual risk assessment based on and taking into consideration the strategic objectives of the Society.
- Sources and levels of income and costs are actively monitored to understand adverse deviations.
- Internal and external environment monitoring to keep abreast of developments and opportunities.

The principal business risks that the Society faces are highlighted in the section headed Managing Our Risks on pages 18 to 21.

CONDUCT RISK

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

CAPITAL RISK

The Society will ensure that we remain financially strong with above average financial strength, in line with our mission statement and consistent with our communications to policyholders. The Society monitors the capital position, both on a regulatory basis (as part of the Pillar 1 requirements of the Solvency II directive) and on an internally determined capital requirement basis (through the ORSA process) on a regular basis.

The Society's internal capital requirements are set at a much higher level than the minimum regulatory requirements, and internal metrics used to monitor the capital levels are measured against these internal requirements, ensuring that the Society remains financially strong, and it holds much more capital than is required by regulations. Information on capital resource is disclosed in Note 13.

REPUTATION RISK

The Society recognises that our long-term sustainability depends on the strength of our reputation and relationship with our customers. We strive to treat our customers fairly and act with integrity. Reputational risk is monitored through a variety of risk indicators to determine the view of the Society by stakeholders including the media, regulators, our customers and our people.

KEY RISKS

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

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

MARKET RISK

(I) OVERVIEW

Market risk is the risk that the fair value or future cash flows, including annual management charges (AMC), of the Society's assets and liabilities fluctuate because of changes in market prices. The key components of market risk are equity price risk, property 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 fixed interest and index-linked assets; 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 determined 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 policyholder asset shares and for the rest of the assets in the With Profits Pool, some of which back other liabilities such as guarantees and options.

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

The Chief Actuary carries out investigations to explore the financial impact of a range of market stresses and reports them annually in the Capital Plan, Actuarial Function Report and through the Own Risk and Solvency Assessment (ORSA).

The separate responsibilities of the Board, the Risk Committee and the relevant Executive 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. Exposures to individual companies and to equity securities in aggregate are monitored in order to ensure compliance with the relevant risk limits for solvency purposes.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

2. RISK MANAGEMENT continued

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) PROPERTY RISK

The Society is exposed to risk of falling property value as a result of its direct holdings in property. The vast majority of the Society's property exposure is through internally managed directly held Real Estate although we also own shares in quoted Real Estate companies and open-ended property companies.

Direct holdings are managed on a long-term low turnover basis in line with the overall Society investment approach. However we sell specific assets where it is felt that the longer term prospects are unattractive or where significant additional value can be realised in the short-term (e.g. change of use, strategic value to an alternative buyer).

The Society's internal team of Chartered Surveyors are tasked with maximising long-term rental income and minimising voids. A wide distribution of investments is held both by location and property type and these are monitored against the key benchmark, the Investment Property Databank (IPD), All-Property index, or other suitable indices that are available from time to time.

(IV) INTEREST RATE RISK

Interest rate risk is the risk that arises from fluctuating interest rates. Both claims costs and liabilities to policyholders are exposed to interest rate risk.

Fair value interest rate risk is the risk that the fair value of a fixed 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, in particular annuities in payment. 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 some product types, including all with profits contracts, the Society seeks to only partially match the guaranteed payments with fixed interest bearing assets. The remaining outflow is backed by other assets, principally equities.

(V) 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 £487.4m (2016: £463.2m) non-linked assets held in other currencies, £245.2m (2016: £234.7m) is held in US-denominated assets, £156.1m (2016: £135.4m) is held in euro-denominated assets and £86.1m (2016: £93.1m) 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, and the expense of maintaining the in-force business, 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.

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 under '(iii) Financial options and guarantees within insurance contracts'.
- Persistency and expenses:
  The costs associated with writing insurance contracts are those incurred to acquire the policy and those to maintain the policy. These expenses are recovered over the policy's lifetime. If the policy is terminated early, the expense deductions or charges 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 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.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

2. RISK MANAGEMENT continued

KEY RISK FACTORS

- Mortality and morbidity:
  The Society has partially mitigated these risks through varying the premium rates charged under the policy conditions 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 charging premium rates it believes are sufficient to meet expenses while remaining competitive for the protection provided.

NON-PARTICIPATING INSURANCE CONTRACTS – NON-PROFIT ANNUITIES

KEY TERMS AND CONDITIONS

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

KEY RISK FACTORS

- Longevity:
  The contractual stream of payments made until the death of the annuitant gives rise to longevity risk. An increase in life expectancy will increase the payments that have to be made.

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 in some instances to 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

The Society writes a diverse mix of business and therefore has no material concentrations of risk by product type. However, income protection business is primarily sold to members of the medical and dental professions and so results are sensitive to changes in morbidity experience in these professions. The Society's Risk Committee regularly monitors exposure to this risk, which is mitigated by the use of reinsurance.

All Society business has been written in the UK, so results are sensitive to demographic and economic changes arising in the UK. Note 13 provides further information on the Society's sensitivity to changes in these factors.

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 ('the Bank'), 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 Bank Board.

The Bank also provides commercial loans to firms operating in its chosen markets (law, dental and medical) which are sourced by either the Bank's direct sales team Syscap, which is a subsidiary of the Wesleyan Group, or its panel of brokers. 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 2017 the Society's custodians held collateral represented by AAA-rated assets valued at £130.7m (2016: £121.8m) and £11.4m (2016: £12.7m) in cash.

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 91.

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

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

2. RISK MANAGEMENT continued

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events; this includes Cyber and Information Security risks. The Society has a low appetite for operational risk exposures and operates with an appropriate control environment based on evaluation of the costs of risk reduction, with tolerances and limits set out in the Society's Risk Appetite Framework.

Operational risk can manifest through administrative errors, technological failures, criminal conduct, catastrophic events and failure to meet regulatory standards. Senior management are responsible for ensuring that material operational risks are identified, assessed, reported and managed using the approach as outlined in the Society's Risk Management Framework. The Society sub-categorises operational risk into the following elements:

- Financial Crime, which incorporates fraud and money laundering;
- Infrastructure, which includes IT architecture (incorporating cyber and information security risks) and supplier management;
- Catastrophe, which incorporates Business Continuity;
- Administration, which includes customer service and process management;
- Regulatory, which includes adherence to relevant regulations for example GDPR; and
- Mis-selling, which covers the quality of advice given to customers.

The Society has specific risk management strategies in place to identify, measure, manage and monitor these elements of operational risk. Examples include Anti money laundering processes, supplier management review processes, business continuity planning and testing, product reviews, complaint handling processes, regulatory breach monitoring and reporting, and financial consultant training and advice quality monitoring.

3(a). EARNED PREMIUMS

	2017			2016		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Earned Premiums - Society						
Premiums written						
Life ordinary business						
Non-linked regular	12.0	(1.2)	10.8	14.1	(1.5)	12.6
Non-linked single	74.4	-	74.4	65.5	-	65.5
	86.4	(1.2)	85.2	79.6	(1.5)	78.1
Pension business						
Non-linked regular	18.0	-	18.0	22.2	-	22.2
Non-linked single	66.5	-	66.5	40.5	-	40.5
	84.5	-	84.5	62.7	-	62.7
Industrial business						
Non-linked regular	0.1	-	0.1	0.3	-	0.3
Income protection insurance						
Non-linked regular	32.5	(9.6)	22.9	41.3	(11.9)	29.4
With profits ISA						
Regular	32.9	-	32.9	29.0	-	29.0
Single	106.0	-	106.0	69.8	-	69.8
	138.9	-	138.9	98.8	-	98.8
	342.4	(10.8)	331.6	282.7	(13.4)	269.3

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

	2017 £m	2016 £m
Life - regular	**5.9**	3.8
Life - single	**6.0**	6.6
Pension - regular	**19.0**	20.3
Pension - single	**12.8**	6.7
Income protection - regular	**1.9**	2.4
	45.6	39.8

3(b). NEW BUSINESS PREMIUMS

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

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

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

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

	2017 £m	2016 £m
Regular premiums	**24.5**	19.1
Single premiums	**23.8**	18.7
	48.3	37.8
Split by:-		
Life ordinary business	**11.7**	10.3
Pension business	**6.0**	5.2
Income protection insurance	**4.6**	4.9
ISAs*	**26.0**	17.4
	48.3	37.8
Annuities**	**1.7**	1.5
	50.0	39.3

*Excludes the unit trusts managed by 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:

	2017 £m	2016 £m
Regular	**1.4**	0.7
Single	**2.3**	2.6
	3.7	3.3
Life ordinary business	**1.2**	0.8
Pension business	**2.5**	2.5
	3.7	3.3

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

3(c). REINSURANCE

The reinsurance balance amounted to a charge to the Statement of Comprehensive Income at 31 December 2017 of £2.4m (2016: credit of £15.5m).

4. INVESTMENT RETURN

	2017 £m	2016 £m
Investment income:		
Income from land and buildings	18.6	17.2
Income from other investments	174.7	152.4
Net gains on the realisation of investments	259.4	207.7
Net return on pension schemes (Note 23)	2.3	2.1
	455.0	379.4
Investment expenses and charges	(4.3)	(4.0)
Net unrealised (losses)/gains on investments	55.4	489.9
Investment return	506.1	865.3

5(a). OTHER TECHNICAL INCOME

	2017 £m	2016 £m
Gross profit from non-insurance subsidiaries*	3.8	3.3
Fee income in respect of investment contracts (Note 14)	10.7	9.6
Other income	1.2	0.9
	15.7	13.8

*Subsidiary profits above were generated from entities which had third party income of £18.7m (2016: £28.6m).

5(b). OTHER TECHNICAL CHARGES

	2017 £m	2016 £m
Gross loss from non-insurance subsidiaries	8.9	4.5

Subsidiary losses above were generated from entities which had third party income of £22.1m (2016: £12.3m).

6. CLAIMS INCURRED

	2017			2016		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Claims paid	295.1	(18.5)	276.6	280.6	(21.3)	259.3
Claims handling expenses	1.1	-	1.1	1.2	-	1.2
	296.2	(18.5)	277.7	281.8	(21.3)	260.5
Change in provision for claims	(2.3)	-	(2.3)	(0.5)	-	(0.5)
	293.9	(18.5)	275.4	281.3	(21.3)	260.0
Analysed by type of benefit:						
Death claims			20.7			21.6
Maturities			47.1			38.0
Surrenders			135.5			127.2
Annuities			57.5			57.0
Income protection claims			14.6			16.2
			275.4			260.0

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

	2017 £m	2016 £m
Death claims	4.7	2.9
Maturities	22.8	16.3
Surrenders	59.0	45.1
	86.5	64.3

7. NET OPERATING EXPENSES - SOCIETY ONLY

	2017 £m	2016 £m
Acquisition costs	28.4	30.9
Administrative expenses	62.3	55.2
Reinsurance commission	(1.0)	(1.4)
Reinsurance profit share	(3.3)	(3.0)
Amortisation and impairment of goodwill and customer lists	10.2	7.8
Net Operating Expenses (excluding Curtailment Gain)	96.6	89.5
Curtailment Gain (Note 23)	-	(14.0)
Net Operating Expenses	96.6	75.5

In 2017 administrative expenses include ongoing advisor charges of £4.4m (2016: £3.3m). Historically this has been treated as a reduction in premium income.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

7. NET OPERATING EXPENSES - SOCIETY ONLY continued

Administrative expenses for the Society include:

	2017 £m	2016 £m
Interest on finance lease and contract purchase agreements	1.2	1.1
Operating lease rentals	1.1	1.1
Amortisation of computer software	4.7	5.0
Depreciation of tangible assets	2.7	2.3

During the year the Group obtained the following services from the Society's auditor at costs as detailed below. During 2017 the Group has changed auditors from PwC to EY.

	2017 £'000	2016 £'000
Auditors' remuneration (including expenses) amounted to:		
Fees payable to the Society's auditor for the audit of the parent company and consolidated financial statements	208	307
Fees payable to the Society's auditor for other services:		
The audit of the Society's subsidiaries	275	209
The audit of the Society's pension scheme	22	24
Audit-related assurance services	216	181
Taxation compliance	-	39
Taxation advice	-	64
Advisory Services	-	467

8. STAFF COSTS - GROUP

	2017 £m	2016 £m
Salaries and wages	76.3	75.0
Social security costs	7.6	7.3
Pension cost (Note 23)*	6.3	7.2
	90.2	89.5

* Includes £6.3m (2016: £5.6m) in respect of the Society's defined contribution scheme.

Group staff costs are included within the Society expenses disclosure in Note 7, with subsidiary staff costs included as part of the disclosed profits and losses in Notes 5a and 5b.

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

	2017 Number	2016 Number
Wesleyan Financial Services Sales Advisors	334	332
General	1,262	1,247
	1,596	1,579

Note: Details of Directors' Remuneration are given in the Directors' Remuneration Report, Directors' Remuneration Policy and the Annual Report on Remuneration, on pages 33 to 47.

9. TAXATION

	Group		Society	
	2017 £m	2016 £m	2017 £m	2016 £m
Analysis of tax in the year:				
Current tax:				
UK corporation tax on income and gains	**(6.1)**	(14.2)	**(7.0)**	(13.9)
Foreign tax	**(2.3)**	(2.1)	**(2.3)**	(2.1)
Adjustments in respect of prior periods	**-**	0.1	**-**	0.1
Total current tax charge	**(8.4)**	(16.2)	**(9.3)**	(15.9)
Deferred tax:				
Origination and reversal of timing differences	**(8.6)**	(13.0)	**(8.9)**	(13.3)
Movement on deferred tax on pension scheme	**(0.3)**	(2.0)	**(0.3)**	(2.0)
Total deferred tax (Note 15)	**(8.9)**	(15.0)	**(9.2)**	(15.3)
Total tax charge	**(17.3)**	(31.2)	**(18.5)**	(31.2)

The tax charge for the Society which pays BLAGAB tax is provided at a rate of 20% (2016: 20%) computed in accordance with the rates applicable to life assurance companies whereby no tax is charged on pension business profits or permanent health insurance business profits.

For subsidiaries of the Group, tax is provided at a rate of 19.25% (2016: 20%) . The corporation tax rate changed from 20% to 19% with effect from 1 April 2017. A further rate reduction to 17% with effect from 1 April 2020 has been substantively enacted at the balance sheet date.

Finance (No.2) Act 2017 introduced changes to the way tax losses are relieved in current and future periods, and these are effective from 1 April 2017. Broadly, these rules restrict relief for brought forward losses to 50% of taxable profits, subject to a £5m allowance per group, and allows carried forward losses incurred post 1 April 2017 to be offset against total profits of the company and Group.

The tax expense for the subsidiaries is affected by current tax prior year adjustments and the non-recognition of current year tax losses, as well as other timing differences. A reconciliation of the total tax expense can be found in the individual statutory accounts in each of Wesleyan's subsidiaries where material differences between accounting and taxable profits arise.

Tax losses of £23.5m within subsidiaries of the Wesleyan Group have not been recognised owing to uncertainty around their recovery.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

10(a). INVESTMENTS

		Group		Society	
	Note	2017 £m	2016 £m	2017 £m	2016 £m
Financial assets at fair value:					
Shares and other variable yield securities		**2,236.8**	2,100.4	**2,236.8**	2,100.4
Debt and other fixed income securities		**2,032.2**	1,907.1	**2,076.6**	1,945.5
Derivative financial instruments	10c	**142.8**	135.5	**142.8**	135.5
Deposits with credit institutions		**354.1**	354.0	**301.9**	318.9
Group undertakings and participating interests	20	**-**	-	**92.4**	120.8
		4,765.9	4,497.0	**4,850.5**	4,621.1
Financial assets at amortised cost:					
Cash		**56.6**	47.7	**22.9**	14.8
Other loans*		**133.7**	111.1	**-**	-
Debtors arising out of direct insurance operations - policyholders		**1.5**	1.5	**1.5**	1.5
Debtors arising out of reinsurance operations		**3.5**	3.4	**3.5**	3.4
Other debtors		**26.5**	34.2	**2.5**	2.8
		221.8	197.9	**30.4**	22.5
Financial Assets		**4,987.7**	4,694.9	**4,880.9**	4,643.6
Financial liabilities at amortised cost:					
Creditors arising out of direct insurance operations		**1.6**	1.3	**1.6**	1.3
Creditors arising out of reinsurance operations		**0.6**	0.6	**0.6**	0.6
Other creditors including taxation and social security		**26.9**	47.5	**26.9**	27.7
Deposits from banks		**12.0**	-	**-**	-
Customer bank accounts		**152.7**	116.4	**-**	-
Deposits received from Reinsurers		**40.4**	47.9	**40.4**	47.9
Financial Liabilities		**234.2**	213.7	**69.5**	77.5

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

The value of unlisted investments included in shares and other variable yield securities and debt and other fixed income securities for the Group amounted to £0.7m (2016: £0.1m).

The value of unlisted investments included in shares and other variable yield securities and debt and other fixed income securities for the Society amounted to £39.0m (2016: £38.4m). This relates primarily to loans issued to fellow Group companies.

Refer to Note 20 for further detail on the valuation of Group Undertakings and participating interests.

	Society	
	2017 £m	2016 (Restated) £m
Non-linked assets subject to credit risk:		
AAA	86.2	81.4
AA	1,461.1	1,517.7
A	304.2	229.1
BBB	409.6	282.3
Below BBB or not rated	207.9	243.3
Total assets bearing credit risk	2,469.0	2,353.8
Derivative financial instruments	142.8	135.4
Debt securities	2,024.3	1,899.5
Deposits with credit institutions*	301.9	318.9
Total assets bearing credit risk	2,469.0	2,353.8

* The Group Balance Sheet includes additional amounts for deposits with credit institutions held in the subsidiaries.

	2017 £m	2016 £m
Analysis of sovereign debt securities is as follows:		
i) Sovereign debt by country		
UK	1,319.0	1,277.9
USA	19.4	21.3
Germany	26.1	26.2
France	19.8	19.6
Portugal	-	-
European Investment Bank	14.0	10.3
	1,398.3	1,355.3
ii) Other debt securities		
UK Corporate Bonds	543.2	465.7
Corporate Bonds - Index-Linked	82.8	78.4
Other Debt - Fixed Income *	52.3	46.1
	678.3	590.2
	2,076.6	1,945.5

* Includes Loan to Subsidiaries and Preference shares.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

10(a). INVESTMENTS continued

	2017 £m	2016 £m
Analysis of maturity of debt securities:		
Less than 1 year	81.6	129.7
1-5 years	429.7	327.5
More than 5 years	1,565.3	1,488.3
	2,076.6	1,945.5

A reconciliation of land and buildings is shown below:	Total £m	Other freehold properties £m	Long leasehold properties £m
Current Value:			
At 1 January 2017	256.0	246.8	9.2
Additions	59.7	54.8	4.9
Gain/(loss) on fair value adjustments	5.3	4.2	1.1
Disposals	(16.4)	(16.4)	-
At 31 December 2017	304.6	289.4	15.2
Cost:			
At 1 January 2017	203.3	195.0	8.3
Additions	59.7	54.8	4.9
Disposals	(6.0)	(6.0)	-
At 31 December 2017	257.0	243.8	13.2

10(b). ASSETS HELD TO COVER LINKED LIABILITIES

	Current Value		Cost	
	2017 £m	2016 £m	2017 £m	2016 £m
Shares and other variable yield securities	1,020.6	949.7	542.3	550.8
Debt and other fixed income securities	158.6	158.7	122.3	118.0
Deposits with credit institutions	90.6	86.7	94.6	82.1
Total	1,269.8	1,195.1	759.2	750.9

10(c). DERIVATIVE FINANCIAL INSTRUMENTS

	2017			2016		
	Contract/ Notional Amount £m	Fair Value Asset £m	Fair Value Liability £m	Contract/ Notional Amount £m	Fair Value Asset £m	Fair Value Liability £m
Swaptions	200.7	131.4	-	232.5	122.8	-
Equity Put Option	148.7	11.4	-	123.6	12.7	-
Total	349.4	142.8	-	356.1	135.5	-

10(d). OTHER FINANCIAL INVESTMENTS

	Group		Society	
	2017 £m	2016 £m	2017 £m	2016 £m
Shares and other variable yield securities	**2,236.8**	2,100.4	**2,236.8**	2,100.4
Debt and other fixed income securities	**2,032.2**	1,907.1	**2,076.6**	1,945.5
Derivative financial instruments (Note 10c)	**142.8**	135.5	**142.8**	135.5
Deposits with credit institutions	**354.1**	354.0	**301.9**	318.9
Other loans	**133.7**	111.1	-	-
Total	**4,899.6**	4,608.1	**4,758.1**	4,500.3

10(e). GOODWILL

	2017 £m	2016 £m
Cost:		
At 1 January	**76.9**	76.9
Additions	**1.0**	-
Impairment*	**(2.4)**	-
At 31 December	**75.5**	76.9
Accumulated Amortisation:		
At 1 January	**17.1**	11.0
Charge for the year	**5.8**	6.1
At 31 December	**22.9**	17.1
Net Book Amount		
At 31 December	**52.6**	59.8

* During the year an impairment was recognised against the goodwill asset reflecting revised fair value methodology with a resulting £2.4m impact.

11. OTHER DEBTORS

	Group		Society	
	2017 £m	2016 £m	2017 £m	2016 £m
Net investment in finance leases and similar hire purchase contracts	**5.9**	19.8	-	-
Income receivable	**7.8**	7.2	-	-
Other debtors	**12.7**	7.2	**2.5**	2.8
	26.5	34.2	**2.5**	2.8

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

12(a). INTANGIBLE ASSETS

	Group			
	Total £m	Computer Software** £m	Assets in course of construction* £m	Customer Lists £m
Cost:				
At 1 January 2017	73.1	32.8	23.5	16.8
Additions	23.7	3.2	20.5	-
Transfers	-	4.7	(4.7)	-
At 31 December 2017	**96.8**	**40.7**	**39.3**	**16.8**
Accumulated Depreciation:				
At 1 January 2017	13.5	12.1	-	1.4
Charge during the year	6.7	4.7	-	2.0
At 31 December 2017	**20.2**	**16.8**	**-**	**3.4**
Net Book Amount				
At 31 December 2017	**76.6**	**23.9**	**39.3**	**13.4**
At 31 December 2016 (Restated)	59.6	20.8	23.5	15.4

	Society			
	Total £m	Computer Software** £m	Assets in course of construction* £m	Customer Lists £m
Cost:				
At 1 January 2017	56.3	32.8	23.5	-
Additions	23.7	3.2	20.5	-
Transfers	-	4.7	(4.7)	-
At 31 December 2017	**80.0**	**40.7**	**39.3**	**-**
Accumulated Depreciation:				
At 1 January 2017	12.1	12.1	-	-
Charge during the year	4.7	4.7	-	-
At 31 December 2017	**16.8**	**16.8**	**-**	**-**
Net Book Amount				
At 31 December 2017	**63.2**	**23.9**	**39.3**	**-**
At 31 December 2016 (Restated)	44.2	20.8	23.5	-

*Assets in course of construction relate to ongoing computer software development.

** In 2017, computer software has been reclassified as intangible assets, having previously being disclosed within tangible fixed assets. Additionally, assets in course of construction, which related to computer software, have also been reclassified.

12(b). TANGIBLE FIXED ASSETS

	Group						
	Total £m	Freehold buildings and Leasehold property* £m	Furniture and Fittings £m	Computer Hardware £m	Equipment for Hire £m	Motor Vehicles** £m	Assets in course of construction £m
Cost or Valuation:							
At 1 January 2017	34.1	11.9	4.6	5.9	2.1	9.6	-
Additions	5.6	-	1.1	0.7	0.8	2.5	0.5
Disposals	(5.0)	-	-	-	-	(5.0)	-
Revaluations	5.0	5.0	-	-	-	-	-
At 31 December 2017	**39.7**	**16.9**	**5.7**	**6.6**	**2.9**	**7.1**	**0.5**
Accumulated Depreciation:							
At 1 January 2017	10.9	-	3.0	4.5	0.4	3.0	-
Charge during the year	3.2	0.5	0.5	0.8	0.2	1.2	-
Disposals	(2.5)	-	-	-	-	(2.5)	-
Revaluations	(0.5)	(0.5)	-	-	-	-	-
At 31 December 2017	**11.1**	**-**	**3.5**	**5.3**	**0.6**	**1.7**	**-**
Net Book Amount							
At 31 December 2017	**28.6**	**16.9**	**2.2**	**1.3**	**2.3**	**5.4**	**0.5**
At 31 December 2016 (Restated)***	23.2	11.9	1.6	1.3	1.7	6.6	-

	Society						
	Total £m	Freehold buildings and Leasehold property* £m	Furniture and Fittings £m	Computer Hardware £m	Equipment for Hire £m	Motor Vehicles** £m	Assets in course of construction £m
Cost or Valuation:							
At 1 January 2017	30.9	11.9	4.3	5.1	-	9.6	-
Additions	4.4	-	1.0	0.4	-	2.5	0.5
Disposals	(5.0)	-	-	-	-	(5.0)	-
Revaluations	5.0	5.0	-	-	-	-	-
At 31 December 2017	**35.3**	**16.9**	**5.3**	**5.5**	**-**	**7.1**	**0.5**
Accumulated Depreciation:							
At 1 January 2017	10.3	-	2.9	4.4	-	3.0	-
Charge during the year	2.7	0.5	0.4	0.6	-	1.2	-
Disposals	(2.5)	-	-	-	-	(2.5)	-
Revaluations	(0.5)	(0.5)	-	-	-	-	-
At 31 December 2017	**10.0**	**-**	**3.3**	**5.0**	**-**	**1.7**	**-**
Net Book Amount							
At 31 December 2017	**25.4**	**16.9**	**2.0**	**0.5**	**-**	**5.4**	**0.5**
At 31 December 2016 (Restated)***	20.6	11.9	1.4	0.6	-	6.6	-

*Freehold buildings include the owner occupied section of the Head Office property. In 2017 a greater proportion of this property is now owner occupied. This reclassification has been included as part of the 2017 revaluation, with a similar reduction occurring within investment property as a result. The property is 69% owner occupied (2016: 50%).
The property was revalued on 01 December 2017 by independent qualified surveyors. The basis of valuation used is open market value net of cost of purchase. Due to Wesleyan now occupying a greater proportion of the property, a revaluation would have been required in 2017 had the cost model originally been adopted on transition to FRS 102 (2016: £4.7m).

**Motor vehicles within the Group are held under contract purchase agreements.

*** In 2017, computer software has been reclassified as intangible assets, having previously being disclosed within tangible fixed assets. Additionally, assets in course of construction, which related to computer software, have also been reclassified.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

13. FUND FOR FUTURE APPROPRIATIONS (FFA) AND CAPITAL MANAGEMENT

The following note sets out the Society's financial strength on a statutory basis (FFA) and a regulatory basis (Solvency II Own Funds). The Society's main financial risks are also set out below, with sensitivities to changes in key risks provided. The capital requirements shown below are based on Solvency II.

FUND FOR FUTURE APPROPRIATIONS (FFA)

The Society's statutory capital position is represented by its FFA, which is shown in the table below.

FUND FOR FUTURE APPROPRIATIONS

	Group		Society	
	2017 £m	2016 £m	2017 £m	2016 £m
At 1 January	634.8	602.3	659.8	633.9
Transfer from/(to) Profit and Loss Account	14.4	23.0	(4.1)	16.4
Transfer from Other Comprehensive Income	6.5	9.5	6.5	9.5
At 31 December *	655.7	634.8	662.2	659.8

* Includes the General Business Fund in the amount of £2.8m (2016: £2.8m) referred to in Note 22.

CAPITAL MANAGEMENT

(I) REGULATORY ENVIRONMENT

In reporting the Society's regulatory financial strength, capital and solvency are measured using the regulations prescribed by the PRA under the Solvency II regulatory reporting regime. These regulations include a number of capital tests, as described below. The Society has continually been able to meet all of these capital requirements throughout the year and continued to have significant resources and financial strength.

(II) CAPITAL MANAGEMENT POLICIES AND OBJECTIVES

As set out in the Society's PPFM, the Society's main objectives in managing its estate (which represents regulatory capital) are:

- to meet regulatory capital requirements;
- to finance the cash flow strains which arise from new policies we write or from policies already written;
- to enable us to invest a higher proportion of the With Profit Pool in equities and property;
- to smooth the payouts to With Profits policyholders;
- to meet some guarantee costs, where the Board have established that the estate has taken the guarantee risk or have determined that the guarantee cost is exceptionally high and should not be charged in full to policyholders;
- to provide finance for business developments with an expectation that the estate will recoup its investment from future profits; and
- to meet exceptional costs.

(III) METHODOLOGY FOR DETERMINING REQUIRED CAPITAL RESOURCES

The Society is required to hold sufficient capital to meet the PRA's capital requirements under Solvency II regulations.

PILLAR 1:

The Pillar 1 regulatory capital requirement, called the Solvency Capital Requirement (SCR), is reported in the publicly available Quantitative Reporting Templates (QRTs) submitted to the regulator each quarter. The Society's SCR is determined using a standard formula to cover a one in 200 risk event over a one year period.

PILLAR 2:

The Society also submits to the PRA an 'Own Risk and Solvency Assessment (ORSA)' under Pillar 2 of the Solvency II regime. The ORSA is based on the Society's internal risk appetite, which requires more capital than the Pillar 1 regime, therefore providing a greater level of financial protection for the Society's policyholders.

Whilst the ORSA is used by the Society to run its business, the capital requirements and figures reported within these notes relate to the Pillar 1 position.

(IV) METHODOLOGY FOR DETERMINING AVAILABLE CAPITAL RESOURCES

The Society has two With Profits Funds, the Ordinary and Industrial Long Term Business Fund (OILTBF) and the Medical Sickness Society Fund (MSSF), which are shown separately in the capital position statement and in the table below. 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 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.

Available capital resources are calculated in accordance with the Solvency II, Pillar I requirements, 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. These are shown in the table below.

AVAILABLE CAPITAL RESOURCES

	OILTBF 2017 £m	MSSF 2017 £m	Total 2017 £m	OILTBF 2016 £m	MSSF 2016 £m	Total 2016 £m
Fund for Future Appropriations	655.7	-	655.7	634.8	-	634.8
Adjustments to assets	(129.1)	-	(129.1)	(20.1)	-	(20.1)
Adjustments to liabilities	104.5	52.9	157.4	-	26.9	26.9
Total available capital resources	631.1	52.9	684.0	614.7	26.9	641.6
Other adjustments	(2.3)	(29.3)	(31.6)	(2.3)	(0.1)	(2.3)
Eligible Own Funds to meet SCR	628.8	23.6	652.4	612.4	26.8	639.3
Solvency Capital Requirement	142.5	23.6	166.1	155.4	26.8	182.2
Cover for Solvency Capital Requirement	441%	100%	393%	394%	100%	351%

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 available capital resources 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.

(V) SOLVENCY II OWN FUNDS AND SURPLUS CAPITAL

Own Funds are determined in accordance with the Capital Management policies described above.

Total Liabilities are determined using the same methodology as described in Note 1, and are inclusive of the present value of future profits on linked non-profit business.

The Solvency Capital Requirement (SCR) represents the level of capital that the Society is required to hold in the Pillar 1 stress event. The SCR is calculated assuming that, amongst other less material risks:

- risk free yields rise;
- equity and property markets fall;
- longevity increases, increasing annuity liabilities;
- credit risk increases 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 list of the most material stress assumptions and their impact is shown in the sensitivity analysis section.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

13. FUND FOR FUTURE APPROPRIATIONS AND CAPITAL MANAGEMENT continued

(VI) MOVEMENTS IN AVAILABLE CAPITAL RESOURCES IN PERIOD

A summary Solvency II Pillar 1 Balance Sheet is shown below:

	2017 £m	2016 £m
Total value of investment assets	**6,522.8**	6,167.9
Value of reinsurance	**85.6**	100.0
Total Assets	**6,608.4**	6,267.9
With profits technical provisions		
– With profits benefit reserve	**3,411.2**	3,062.9
– Options & Guarantees	**113.3**	151.8
Linked technical provisions	**1,222.1**	1,149.2
Other Life technical provisions	**880.9**	937.4
Health technical provisions	**124.9**	151.8
Other liabilities	**172.0**	173.2
Total Liabilities	**5,924.4**	5,626.3
Total Available Capital Resources	**684.0**	641.6
Solvency Capital Requirement	**166.1**	182.2
Total Surplus Capital	**517.9**	459.4

	OILTBF £m	MSSF £m	Total business £m
Balance at 1 January 2017	**614.7**	**26.9**	**641.6**
Modelling improvements	-	(9.5)	(9.5)
Effect of method changes	-	-	-
Effect of investment variations	38.1	8.2	46.3
Effect of experience variations	(8.3)	3.3	(5.0)
Effect of assumption changes	-	-	-
- mortality	-	13.5	13.5
- morbidity	1.0	-	1.0
- persistency	(0.7)	(0.7)	(1.4)
- GAR take up	-	21.6	21.6
- other	(0.1)	-	(0.1)
New Business	(0.3)	-	(0.3)
Mutual Benefits Scheme	(11.3)	-	(11.3)
Other factors	(2.0)	(10.4)	(12.4)
Balance at 31 December 2017	**631.1**	**52.9**	**684.0**

The table above shows key elements of the movements in Own Funds over the period. The impact is from changes in key assumptions, which include adjustments to reflect latest best estimate economic assumptions such as interest rates, credit spreads and inflation, and insurance and other assumptions such as those relating to persistency, mortality and expense assumption changes. These will affect Own Funds since the assumptions will have an impact on costs of guarantees, options and smoothing, the value of in-force business and the with profits benefit reserve.

The most significant factor affecting the Open Fund is the strong investment return in 2017, which results in the positive investment variance shown. This has been partially offset by enhancements to the Society's Mutual Benefit Scheme, which will increase the amounts distributed to policyholders in 2018. In the MSS Fund, weakened longevity assumptions and a reduction in the assumed rate at which customers exercise their right to a guaranteed annuity rate have increased Own Funds. 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. A reserve has been set up at year end to enable Mutual Benefits distribution to members, reducing Own Funds, as shown in the 'Mutual Benefits Scheme' line.

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 Own Funds.

(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 fully evaluated quarterly with estimates given monthly, or more frequently during periods of market downturn or uncertainty, 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.
- Credit risk in relation to corporate bonds held by the Society. Widening credit spreads would reduce asset values across a range of funds, whilst liability values would remain unchanged, reducing Own Funds. In addition, default on expected future reinsurance profit would potentially lead to a worsening in the Society's 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.
- Operational risk relating to costs incurred in the day-to-day running of the business, particularly as a result of actions taken by Society employees, for example mis-selling or fraud.

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.

In addition, actions could be taken to reduce the Society's required capital by risk management particularly relating to assets – for example, divestment from current equity or corporate bond holdings in favour of a safer but lower yielding asset such as cash.

A sensitivity analysis reflecting the impact of changes to mortality, morbidity, persistency, expense and market assumptions on the Society's available capital is provided below. Stresses reflect capital held for the stresses in the one in 200 scenario modelled for calculation of the Society's SCR.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

13. FUND FOR FUTURE APPROPRIATIONS AND CAPITAL MANAGEMENT continued

The separate investment strategy for the assets backing policy asset shares described in the Market Risk Overview on page 79 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 this leads to a lower SCR than would be the case if equity investment was at similar levels across all funds.

(IV) SENSITIVITY ANALYSIS

SCR stresses and impacts

		Impact on available capital	
Risk	**Stress assumption used**	**2017 £m**	**2016 (Restated) £m**
Demographic			
Longevity improvement	20.0%	**29.9**	33.4
Morbidity level (inceptions and terminations)	25.0% /(20.0%)	**7.6**	9.1
Change to future lapses	(50%)	**21.6**	25.6
Expense (level and inflation increase)	10.0% / 1.0%	**3.6**	4.8
Economic			
Equity level fall	40.9%	**37.7**	49.7
Credit stress - reduction in value of AA rated corporate bond (term 10 / 15 / 20)	8.5% / 11.0% / 13.5%	**58.8**	56.4
Interest rate rise (term 10 / 15/ 20)	1.0% / 1.0% / 1.0%	**26.3**	26.7
Property level fall	25.0%	**8.4**	10.3

The table above shows sensitivities to movements in the assumptions used at 31 December 2017 on Pillar I Own Funds, before transfer to With Profits asset shares.

The impacts of the value of non-profit business are more significant than the net changes in Own Funds. This is because 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.

Sensitivities shown reflect the equivalent SCR stresses on the balance sheet for relevant economic, demographic and insurance assumptions. The Society has reduced the amount of its capital invested in equities during the year, so is now less exposed to equity falls. Changes to interest rates have also reduced the Society's exposure to demographic risks.

These are stresses which apply in a 1 in 200 scenario.

(1) DEMOGRAPHIC

ANNUITANT LONGEVITY

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.

MORBIDITY

INCREASE IN BASE MORBIDITY RATES, PLUS A REDUCTION IN CLAIM TERMINATIONS.

This sensitivity demonstrates the effect of an increase in the rate of serious illness.

PERSISTENCY

REDUCTION IN LAPSE RATES

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

(2) EXPENSES

INCREASE IN MAINTENANCE EXPENSES, THE ONGOING COST OF ADMINISTERING CONTRACTS.

This sensitivity is applied to the projected level of expenses. An increase in expenses beyond best estimate expense inflation will increase liabilities for non-participating business.

(3) ECONOMIC

This sensitivity is designed to show the effect of an adverse movement in interest rates used to discount liabilities and implicit in asset valuations. At the end of 2017, this relates to an upward movement in yields on the Pillar 1 balance sheet.

The value of liabilities is 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.

EQUITY CAPITAL VALUES AND PROPERTY CAPITAL VALUES

DECREASE IN EQUITY CAPITAL VALUES AT THE VALUATION DATE, WITHOUT A CORRESPONDING RISE IN DIVIDEND YIELD.

DECREASE IN PROPERTY CAPITAL VALUES WITHOUT A CORRESPONDING RISE IN RENTAL YIELD.

These sensitivities show 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, as a result of minimum guaranteed payout levels on these contracts. Consequently, the available capital will be reduced by a fall in asset values.

CREDIT STRESSES

INCREASE IN YIELD OF COMMERCIAL FIXED INTEREST SECURITY OVER GOVERNMENT DEBT.

This sensitivity shows the impact in a sudden change in relative creditworthiness of corporate debt. The value of corporate debt assets will decrease when credit spreads increase, with no corresponding decrease in liability for policyholder assets.

INTEREST RATES

STRESS TO YIELD CURVE, AS SHOWN IN TABLE BELOW:

Term (years)	5	10	15	20	25
Interest rate before stress (% per annum)	0.94	1.19	1.33	1.38	1.36
Interest rate after stress (% per annum)	1.94	2.19	2.33	2.38	2.36
Change	1.00	1.00	1.00	1.00	1.00

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

14. LONG-TERM BUSINESS PROVISION AND TECHNICAL PROVISION FOR LINKED LIABILITIES

The following note describes the Society's technical provisions, changes to them over the reporting period and the causes of these changes, as well as their effect on policyholders in terms of bonuses allocated to with profits policies. It also outlines the key assumptions used in calculating the provisions and the effect of those assumptions on the calculation of the provisions.

The Society's technical provisions continue to increase on good investment returns and with new business sold, increasing the value of contracts to policyholders.

TECHNICAL PROVISIONS SUMMARY

Shown in the tables below are the total technical provisions of the Group at the end of 2017. The change since last year is then shown, broken down into the change in the long-term business provision for with profits and non profits business and the change in linked liabilities. The effect of reinsurance on the changes is also shown in the table.

LIABILITY ANALYSIS

	OILTBF 2017 £m	MSSF 2017 £m	Total business 2017 £m	OILTBF 2016 £m	MSSF 2016 £m	Total business 2016 £m
With profits liabilities						
Options and guarantees	73.1	154.3	227.4	92.8	183.2	276.0
Other policyholder obligations	2,923.1	531.5	3,454.6	2,527.0	493.7	3,020.7
Total with profits liabilities	2,996.2	685.8	3,682.0	2,619.8	676.9	3,296.7
Non-profit life assurance	1,003.0	2.8	1,005.8	1,085.2	4.0	1,089.2
Total long-term business provision	3,999.2	688.6	4,687.8	3,705.0	680.9	4,385.9
Linked provisions	1,269.8	-	1,269.8	1,195.1	-	1,195.1
Technical provisions in balance sheet	5,269.0	688.6	5,957.6	4,900.1	680.9	5,581.0

	Long-term Business Provision				
	Insurance Contracts £m	Investment Contracts with DPF £m	Total long-term business provision £m	Provision for Linked Liability £m	Total Liability £m
Gross provision					
At 1 January 2017	3,824.5	561.4	4,385.9	1,195.1	**5,581.0**
Change in technical provisions	233.2	68.7	301.9	74.7	**376.6**
At 31 December 2017	**4,057.7**	**630.1**	**4,687.8**	**1,269.8**	**5,957.6**
Reinsurers' share					
At 1 January 2017	100.0	-	100.0	-	**100.0**
Change in technical provisions	(14.4)	-	(14.4)	-	**(14.4)**
At 31 December 2017	**85.6**	-	**85.6**	-	**85.6**
Net provision					
At 1 January 2017	3,724.5	561.4	4,285.9	1,195.1	**5,481.0**
Change in technical provisions	247.6	68.7	316.3	74.7	**391.0**
At 31 December 2017	3,972.1	630.1	4,602.2	1,269.8	**5,872.0**

CHANGE IN TECHNICAL PROVISION FOR LINKED LIABILITIES

	2017 £m	2016 £m
The change in liabilities on investment contracts comprises:		
Premiums received (Note 3(a))	45.6	39.8
Claims paid (Note 6)	(86.5)	(64.3)
Fee income deducted (Note 5(a))	(10.7)	(9.6)
	(51.6)	(34.1)
Allocation of net investment return	126.3	178.8
Increase in technical provisions for linked liabilities	74.7	144.7

CHANGE IN LONG-TERM BUSINESS PROVISION

	2017			2016		
	Insurance contracts £m	Investment contracts with DPF £m	Total long-term business provision £m	Insurance contracts £m	Investment contracts with DPF £m	Total long-term business provision £m
Gross Provisions						
Change in liabilities comprises:						
Assumption and method changes	(22.5)	(7.5)	(30.0)	41.6	6.5	48.1
Net investment return on technical provisions	255.6	43.1	298.7	456.5	60.1	516.6
Other	0.1	33.1	33.2	0.8	18.2	19.0
Increase in long-term business provision	233.2	68.7	301.9	498.9	84.8	583.7
Reinsurers' Share						
Change in liabilities comprises:						
Assumption and method changes	(6.0)	-	(6.0)	(9.4)	-	(9.4)
Net investment return on technical provisions	1.0	-	1.0	10.3	-	10.3
Other	(9.4)	-	(9.4)	2.3	-	2.3
Increase in long-term business provision	(14.4)	-	(14.4)	3.2	-	3.2

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

14. LONG-TERM BUSINESS PROVISION AND TECHNICAL PROVISION FOR LINKED LIABILITIES continued

Key changes in liability during 2017 result from:

- Strong investment returns, which contribute almost £300m to increased liabilities (shown in 'net investment return on technical provisions' in the table above).
- Various assumption changes have been made during the year, most of which impacted with profits payouts so overall liabilities were little changed. Liabilities did however reduce as a result of a reduction in the rate at which MSS Fund policyholders are assumed to exercise guaranteed annuity rate options.
- 'Other' factors include new business added to the fund over the year.

VALUATION BASIS

(I) WITH PROFITS AND UNIT-LINKED INSURANCE 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 taking into account future expected payouts, including expenses. This takes account of future expense profit expected on these products, and thus is lower than the unit value at the valuation date.

The tables below show the principal expense assumptions used in determining the cost of options and guarantees in the long-term business provision in respect of with profits business. As well as with profits business, these expense assumptions also apply to all unit linked and non profit business. More granular assumptions by product were adopted during the year following a detailed review of experience.

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, regular income withdrawal 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 2017. No market value reductions (MVRs) applied on early surrender or transfer at that date, and no MVRs were applied during 2017.

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 MSS Fund where derivative assets are held to hedge the interest rate risk. This liability has fallen slightly during 2017 due to an assumption of a lower take up rate of these options in future.

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 inflation is assumed to be 2.50% (2016: 3.75%) per annum over the next five years, as increased policy volumes are expected to reduce per policy expenses. After this period, expense inflation is assumed to be 3.70% (2016: 3.75%) per annum, being 0.40% (2016: 0.40%) per annum above the implied price inflation from UK Government long dated index-linked and conventional gilts.

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

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

Persistency rates are assumed to vary according to either policy duration or age, 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 a few policies and lapse experience is limited.

(II) NON-PARTICIPATING INSURANCE BUSINESS (OTHER THAN CONTRACTS ATTACHED TO UNIT-LINKED BUSINESS)

Annuities in payment have been valued by discounting future annuity payments and expenses.

The assumptions used in the valuation of non-profit policies are best estimates of likely future experience. The interest rates used for discounting were prescribed by EIOPA and represent a risk-free rate of market-consistent swap yields. These yields were adjusted to allow for credit risk in line with the rules and guidance issued by the PRA.

The mortality rate assumptions used are the Society's assessment of best estimate levels of current mortality, and, for annuities, the future rate of improvement. Less granular assumptions by assurance product were adopted during the year following a detailed review of experience. For income protection policies, the assumed level of morbidity is similarly a reflection of the Society's own recent experience.

Premiums are assumed to be paid in line with the policy conditions. However, for reviewable premium business, where profits and losses which have already occurred on non-profits business are yet to be passed to policyholders, a reserve is held in respect of future premium reductions due to policyholders.

For non-participating business which is written in the OILTBF, the long-term insurance liabilities were calculated on a 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.

The principal assumptions made for Society business were as follows:

Expenses Per policy expenses (quoted gross of any tax relief)	2017 £	2016 £
Open Fund		
Ordinary business		
Life – Premium Paying	**90.00**	108.00
Life – Single Premium/Paid Up	**90.00**	72.00
Pensions – Premium Paying	**96.00**	108.00
Pensions – Single Premium/Paid Up	**96.00**	72.00
Life and Pensions – Annuities	**78.00**	72.00
Income Protection	**79.00**	108.00
Industrial assurance business		
Premium Paying	**9.03**	8.96
Paid Up	**2.26**	2.24
MSS Fund		
Pensions – Premium Paying	**140.85**	134.25
Income Protection	**105.64**	100.69
Life – Premium Paying, Pensions – Single Premium/Paid Up	**70.43**	67.13

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

14. LONG-TERM BUSINESS PROVISION AND TECHNICAL PROVISION FOR LINKED LIABILITIES continued

	2017 %	2016 %
% of Premium Expenses		
Open Fund		
Industrial assurance business		
Premium Paying/Premium Loan	**22.00**	22.00
Investment Expenses – % of fund		
Open Fund	**0.097**	0.093
MSS Fund	**0.080**	0.080

	2017 %	2016 %
Mortality		
Ordinary business		
Life assurances	**60%/70% AMC/AFC00 U**	80%/70% AMC/AFC00 U
Pensions	**None in deferment 145%/130% PMA/PFA08**	None in deferment 145%/130% PMA/PFA08
ASW Pensions	**85% AM/AF92 U in deferment: 125%/140% PMA/PFA08**	85% AM/AF92 U in deferment: 125%/125% PMA/PFA08
Pension term assurance	**90%/80% AMC/AFC00**	140%/120% AMC/AFC00
MSS Pensions in payment	**90%/80% PMA/PFA08**	80%/80% PMA/PFA08
Industrial assurance business		
Life assurances	**11% ELT14M-4**	11% ELT14M-4

For non-participating business, regular premium contributions are subject to assumptions regarding persistency in calculating the liabilities for non-participating business. Cessation of premiums is assumed as this would lead to a decrease in expected future value on these policies.

Rates of return are set according to a best estimate assumption 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 expected future inflation.

The amount of the provision is dependent upon the risk free interest rates used to discount future liability cash flows. The risk-free interest rates are defined as the rate at which two parties are prepared to swap fixed and variable interest rate obligations, less a suitable adjustment for the risk of default by either party. The provision is also dependent upon the mortality experience assumed. A reduction in the future mortality rates assumed would increase the provision for annuity business.

SWAP YIELD CURVE AT KEY TERMS:

Term (years)	**5**	**10**	**15**	**20**	**25**
Interest rate (% per annum)	0.94	1.19	1.33	1.38	1.36

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	2017 £m	2016 £m
Bonuses paid as claims (including terminal bonus)	96.0	105.4
Bonuses allocated to policies in-force at 31 December	3.7	4.2
Total	**99.7**	109.6

15.PROVISIONS FOR OTHER RISKS

Group	Vacant Properties £m	Deferred Tax £m	Other £m	Total £m
At 1 January 2017	0.3	81.9	1.1	83.3
Charged during the year (Note 9)	-	8.9	-	8.9
At 31 December 2017	**0.3**	**90.8**	**1.1**	**92.2**

Society	Vacant Properties £m	Deferred Tax £m	Other £m	Total £m
At 1 January 2017	-	81.9	-	81.9
Charged during the year (Note 9)	-	9.2	-	9.2
At 31 December 2017	**-**	**91.1**	**-**	**91.1**

Deferred tax provided in the financial statements relate to the following items:

Society	2017 £m	2016 £m
Timing differences in respect of investment values	87.5	81.2
Deferred tax on pension asset	6.2	5.9
Deferred acquisition costs	(3.2)	(5.4)
Other timing differences*	0.6	0.2
	91.1	81.9

* The Group deferred tax liability includes an offsetting £0.3m (2016: nil) deferred tax asset for subsidiaries.

The provision for deferred tax on unrealised gains on linked assets is included in the provision for linked liabilities and amounts to £7.4m (2016: £7.3m).

16. DEPOSITS RECEIVED FROM REINSURERS

During 2011, the Society undertook a financing transaction by restructuring its existing Income Protection reinsurance arrangement. An advance payment of £82.9m was received on 16 December 2011 in return for a commitment to pay a series of future claim rebates, which will be offset against future reinsurance claim recoveries in the period to 2034. At 31 December 2017, £40.4m (2016: £47.9m) of this deposit remains outstanding.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY PAYABLE WITHIN FIVE YEARS

	Group		Society	
	2017 £m	2016 £m	2017 £m	2016 £m
Contract purchase agreements	4.8	6.6	4.8	6.6
Amounts payable to subsidiary undertakings	-	-	14.9	9.0
Other creditors	13.3	27.7	1.7	3.3
Taxation and social security	8.7	13.2	5.5	8.8
	26.9	47.5	26.9	27.7

All balances payable are unsecured and are due within one year apart from contract purchase agreements, as detailed below:

	Group		Society	
	2017 £m	2016 £m	2017 £m	2016 £m
Under one year	1.2	2.7	1.2	2.7
In the second to fifth years inclusive	3.6	3.9	3.6	3.9
	4.8	6.6	4.8	6.6

18. CAPITAL COMMITMENTS

Commitments authorised or contracted for but for which no provision had been made at the balance sheet date totalled £3.6m (2016: £7.1m).

19. FINANCIAL COMMITMENTS

At 31 December 2017, the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

Payments due	2017 £m	2016 £m
Not later than one year	0.7	1.2
Later than one year and not later than five years	1.0	0.5
	1.7	1.7

20. INVESTMENT IN SUBSIDIARIES

	2017 £m	2016 £m
At 1 January	120.8	123.3
Fair value adjustment	(28.4)	(2.5)
At 31 December	92.4	120.8

All subsidiaries have been valued using expected present value techniques with forecasts based on the financial projections of the Group. The values are very sensitive to changes in the short term profit forecasts and discount rates used, so can fluctuate significantly from one year to the next. A discount rate of 8.4% (2016: 9.1%) has been used for Practice Plan Holdings Limited (and all associated subsidiaries).

A discount rate of 12.4% (2016: 9.1%) has been used for Wesleyan Financial Services Limited, Wesleyan Unit Trust Managers Limited and Wesleyan Bank Limited (and all associated subsidiaries).

The directly held subsidiary undertakings of the Society at 31 December 2017 are shown below.

Company	Percentage Held	Principal Activities	Registered Address
Wesleyan Trustees Limited	100%	To provide nominee services to the Trustee of the Wesleyan Staff Pension Scheme.	Colmore Circus, Birmingham, B4 6AR.
Wesleyan Unit Trust Managers Limited	100%	To act as the operator of the Wesleyan range of unit trusts.	Colmore Circus, Birmingham, B4 6AR.
Wesleyan Bank Limited	100%	To provide banking and unsecured lending services.	Colmore Circus, Birmingham, B4 6AR.
Wesleyan Administration Services Limited	100%	To provide administrative services to members of the Group.	Colmore Circus, Birmingham, B4 6AR.
Wesleyan Financial Services Limited	100%	To act as the distribution arm of the Group's insurance and investment activities.	Colmore Circus, Birmingham, B4 6AR.
Wesleyan Key Business Finance Limited	100%	No longer active as a trading company.	Colmore Circus, Birmingham, B4 6AR.
Practice Plan Holdings Limited	100%	Through its trading companies Practice Plan Limited and Practice Plan Insurance Limited, Practice Plan provides practice branded membership plans and support services to the UK dentistry market.	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Nevis Finance Limited	100%	Previously acted as a holding company for Syscap Holdings Limited, now dormant.	Colmore Circus, Birmingham, B4 6AR.
Wesleyan SIPP Trustees Limited	100%	To act as bare trustee of the Wesleyan SIPP.	Colmore Circus, Birmingham, B4 6AR.
Wesleyan Staff Pension Trustees Limited	100%	To act as corporate trustee of Wesleyan Staff Pension Scheme.	Colmore Circus, Birmingham, B4 6AR.
Medical Sickness Financial Planning Limited	100%	Dormant company.	Colmore Circus, Birmingham, B4 6AR.
Medical Sickness Annuity and Life Assurance Society Limited	100%	Dormant company.	Colmore Circus, Birmingham, B4 6AR.
Medical Sickness Society Limited	100%	Dormant company.	Colmore Circus, Birmingham, B4 6AR.
John Wesley Bank Limited	100%	Dormant company.	Colmore Circus, Birmingham, B4 6AR.
J Wesley Bank Limited	100%	Dormant company.	Colmore Circus, Birmingham, B4 6AR.
Key Business Finance Limited	100%	Dormant company.	Colmore Circus, Birmingham, B4 6AR.
Key Business Finance Corporation Limited	100%	Dormant company.	Colmore Circus, Birmingham, B4 6AR.

The Group and all directly held subsidiary undertakings are incorporated and domiciled in England. All subsidiaries are 100% wholly owned and are held at fair value.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

20. INVESTMENT IN SUBSIDIARIES continued

The indirectly held subsidiary undertakings of the Society as at 31 December 2017 are shown below. These entities are subsidiaries of Wesleyan Bank Limited or Practice Plan Holdings Limited.

Company	Percentage Held Indirectly	Principal Activities	Registered Address
Practice Plan Holdings 2007 Limited	100%	Intermediary holding company	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Practice Plan Group (Holdings) Limited	100%	Holding company	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Practice Plan Group Limited	100%	Intermediary holding company	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Practice Plan Insurance Limited[1]	100%	To carry on business of insurance	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Practice Plan Limited	100%	To provide a direct debit collection and administration service for dental practice patient membership schemes	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Worldwide Assistance Limited	100%	To operate a Discretionary Scheme to assist dental plan members in event that they suffer a dental emergency and/or trauma	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Isoplan Limited	100%	Holding company	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ.
Medenta Finance Limited	100%	To provide credit broking services	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ.
Isoplan UK Limited	100%	Dormant company	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ.
Isoplan International Limited	100%	Dormant company	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ.
Syscap Holdings Limited	100%	Holding company	Ci Tower, St. Georges Square, New Malden, Surrey, England, KT3 4TE.
Syscap Group Limited	100%	Holding company	Ci Tower, St. Georges Square, New Malden, Surrey, England, KT3 4TE.
Serco Paisa Limited	50%	Joint venture with Serco Group plc to effect finance	Ci Tower, St. George's Square, New Malden, Surrey, England, KT3 4TE.
Syscap Limited	100%	To arrange lease and loan finance	Ci Tower, St. Georges Square, New Malden, Surrey, England, KT3 4TE.
Syscap Leasing Limited	100%	To arrange lease finance and the provision of loans and associated services	Ci Tower, St. Georges Square, New Malden, Surrey, England, KT3 4TE.
DPAS Limited	100%	To act on behalf of dental practices and patient customers to provide and administer private dental plans	Place Farm Courtyard, Court Street Tisbury, Salisbury, Wiltshire, SP3 6LW.
DPAS Investment and Consultancy Services Limited	100%	To carry out consultancy and research activities	Place Farm Courtyard, Court Street Tisbury, Salisbury, Wiltshire, SP3 6LW.
Quality Plan Limited	100%	Dental insurance	Units 84-85 Enterprise House, Balloo Avenue, Bangor, County Down, BT19 7QT.

[1] Incorporated in Malta

The entities listed below are taking advantage of exemption from audit under section 479a of the Companies Act 2006 on the basis that the Society irrevocably guarantees the debts and liabilities that these subsidiaries have entered into during the 2017 financial year.

Companies exempt from audit	
Wesleyan Administration Services Limited	(Registered Number: 05188850)
Wesleyan Key Business Finance Limited	(Registered Number: 06781929)
Practice Plan Holdings Limited	(Registered Number: 06772074)
Practice Plan Holdings 2007 Limited	(Registered Number: 06023648)
Practice Plan Group (Holdings) Limited	(Registered Number: 05467316)
Practice Plan Group Limited	(Registered Number: 04807010)
Isoplan Limited	(Registered Number: SC210901)
Isoplan International Limited	(Registered Number: 03858678)
Isoplan UK Limited	(Registered Number: SC126957)
Medenta Finance Limited	(Registered Number: SC276679)
Syscap Holdings Limited	(Registered Number: 05740449)
Syscap Group Limited	(Registered Number: 03132650)
Nevis Finance Limited	(Registered Number: 09406937)
Quality Plan Limited	(Registered Number: NI067553)

21. CONTINGENT LIABILITIES

The balance sheet of Wesleyan Bank Limited ('the Bank') includes loans to customers amounting to £1.2m (2016: £1.3m), 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. In addition to the irrevocable overdraft facility, by an agreement dated 24 December 2012, the Society placed at the disposal of the Bank a continuing committed loan facility of up to £40m. The Society has confirmed to the PRA that, whilst noting that its legal liability is limited to the face value of its shareholding, it recognises a moral responsibility to ensure that the Bank continues at all times to meet its obligations.

In addition the Society has guaranteed the repayment of the mutual gold fixed term bonds issued by the Bank up to a maximum sum of £0.25m (2016: £0.25m) for an individual or £0.5m (2016: £0.5m) for a joint account in the event that the Bank fails to repay such amounts. The total value of these bonds held by customers at 31 December 2017 was £2.9m (2016: £7.2m).

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

The Society has absolutely, irrevocably and unconditionally agreed to provide sufficient capital resources to Wesleyan Unit Trust Managers Limited, Wesleyan Financial Services Limited, Wesleyan Administration Services Limited and Wesleyan SIPP Trustees Limited, as well as companies listed in Note 20 as exempt from audit, to enable them to meet their individual liabilities in order to protect and enhance its investments in these subsidiary companies.

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 PRA GENPRU 2.1.30 the Society holds capital of £2.8m (2016:£2.8m) to meet the absolute floor of the minimum capital requirement of €2.5m (2016: €2.5m) in a separately designated interest bearing account.

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

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 Scheme closed to future accrual of benefits on 5 April 2016.

The most recent valuation of the Scheme was as at 31 December 2015. The valuation used the projected unit method and was carried out by a qualified Actuary employed by Aon Hewitt.

The results of the latest funding valuation at 31 December 2015 have been adjusted to the balance sheet date taking account of experience over the period since 31 December 2015, changes in market conditions and differences in the financial and demographic assumptions.

The principal assumptions used to calculate the liabilities under FRS 102 are set out below:

RECONCILIATION OF ACCOUNTING BASIS TO BALANCE SHEET

	2017 £m	2016 £m	2015 £m
Total market value of assets	**526.6**	570.6	491.2
Present value of funded defined benefit obligations	**(432.1)**	(479.8)	(428.3)
Present value of unfunded defined benefit obligations	**(4.9)**	(4.7)	(4.3)
Surplus in Scheme	**89.6**	86.1	58.6
Related deferred tax liability	**(6.2)**	(5.9)	(4.0)
Net pension asset recognised on balance sheet	**83.4**	80.2	54.6

ANALYSIS OF SURPLUS

	2017 £m	2016 £m
Surplus in Scheme at beginning of year	**86.1**	58.6
Current service cost	-	(1.6)
Curtailment impact following closure to future accrual	-	14.0
Contributions	**0.2**	4.7
Other finance income	**2.3**	2.1
Actuarial gain recognised in other comprehensive income	**1.0**	8.3
Surplus in Scheme at end of year	**89.6**	86.1

ANALYSIS OF PROFIT AND LOSS CHARGE

	2017 £m	2016 £m
Current service cost (Recognised in Note 8)	-	(1.6)
Curtailment impact following closure to future accrual	-	14.0
	-	12.4
Interest on net defined benefit asset	**2.3**	2.4
Administration expenses	-	(0.3)
Finance income recognised in Note 4	**2.3**	2.1
Total expense recognised in profit and loss	**2.3**	14.5

CHANGES TO THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION DURING THE YEAR

	2017 £m	2016 £m
Opening defined benefit obligation	484.5	432.6
Current service cost	-	1.6
Interest cost	12.2	15.5
Contributions by participants	-	0.4
Actuarial (losses)/gains on liabilities	5.8	86.7
Net benefits paid out	(65.5)	(38.3)
Past service cost (incl. curtailments)	-	(14.0)
Closing defined benefit obligation	437.0	484.5

CHANGES TO THE FAIR VALUE OF SCHEME ASSETS DURING THE YEAR

	2017 £m	2016 £m
Opening fair value of assets	570.6	491.2
Interest income on Scheme assets	14.5	17.9
Actuarial (losses)/gains on assets	6.8	95.0
Contributions by the employer	0.2	1.8
Additional contributions by the employer	-	2.9
Contributions by participants	-	0.4
Administrative expenses	-	(0.3)
Net benefits paid out	(65.5)	(38.3)
Closing fair value of assets	526.6	570.6

ACTUAL RETURN ON ASSETS

	2017 £m	2016 £m
Expected return on assets	14.5	17.9
Actuarial (losses)/gains on assets	6.8	95.0
Actual return on assets	21.3	112.9

HISTORY OF ASSET VALUES, DEFINED BENEFIT OBLIGATIONS, SURPLUSES AND EXPERIENCE GAINS AND LOSSES

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Fair value of assets	526.6	570.6	491.2	500.0	421.4
Defined benefit obligation	(437.0)	(484.5)	(432.6)	(451.8)	(394.2)
Surplus	89.6	86.1	58.6	48.2	27.2

The main assumptions used by the independent qualified actuary to calculate the liabilities under FRS 102 are set out below:

	2017 (% p.a.)	2016 (% p.a.)	2015 (% p.a.)
RPI Inflation	3.35	3.45	3.35
CPI Inflation	2.25	2.35	2.25
Rate of general long-term increase in salaries	N/A	N/A	3.85
Pension increases in payment (LPI)	3.20	3.25	3.15
Discount rate for Scheme liabilities	2.50	2.70	3.75

NOTES TO THE ACCOUNTS continued

For the year ended 31 December 2017

23. PENSION SCHEMES continued

SCHEME ASSET ALLOCATION

	2017 £m	2016 £m	2015 £m
Equities	**0.3**	2.5	25.8
Property	**1.1**	1.1	1.0
Government Bonds	**295.6**	308.5	249.6
Corporate Bonds	**227.0**	253.3	208.7
Other	**2.6**	5.2	6.1
Total	**526.6**	570.6	491.2

The mortality assumptions used for FRS 102 purposes were as follows:

POST-RETIREMENT MORTALITY:

- 31 December 2017 - S2PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2016 (S_k = 7.5) projections and a long-term rate of improvement of 1.5% for males and 1.25% for females;
- 31 December 2016 - S2PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2015 projections and a long-term rate of improvement of 1.5% for males and 1.25% for females.

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

	2017 Years	2016 Years
Male current pensioner	**23**	23
Male future pensioner (member currently aged 45)	**24**	25
Female current pensioner	**24**	24
Female future pensioner (member currently aged 45)	**25**	26

Approximate impact on balance sheet and statement of comprehensive income charge for the coming year of changing the key assumptions

	Approximate effect on estimated Statement of Comprehensive Income for year ending 31 December 2018 £m				Approximate effect on Balance Sheet at 31 December 2017 £m		
	Service cost	Expenses	Net interest cost on defined benefit liability	Total pension cost	Assets (excluding any restriction)	Defined benefit obligation	Surplus
Current figures	-	-	(2.2)	(2.2)	526.6	(437.0)	89.6
Following a 0.25% p.a. decrease in the discount rate[1]	-	-	(1.5)	(1.5)	526.6	(461.8)	64.8
Following a 0.25% p.a. increase in the RPI inflation assumption[2]	-	-	(1.7)	(1.7)	526.6	(457.8)	68.8
Following a one year increase in life expectancy[3]	-	-	(1.8)	(1.8)	526.6	(455.2)	71.4

Notes:

1. Assuming a 0.25% p.a. decrease in the discount rate used for the calculation of liabilities, but no effect on the asset value.
2. Assuming a 0.25% p.a. increase in the inflation assumption used for the calculation of liabilities, but no effect on the asset value.
3. Calculated assuming flat adjustments to all current and future mortality rates (rather than an adjustment to the rates of longevity improvements).

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 2017 was £110,933 (2016: £65,341). Total claims paid were £177,045 (2016: £nil). 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. Craig Errington was Director of the Corporate Trustee during the year, as was the Chief Actuary, Tim Pindar. The total contributions to the scheme during the year were £0.2m (2016: £4.7m).

The Society operates a defined contribution scheme which is included as part of the total assets and liabilities of the Society. As at 31 December 2017 the total assets of the scheme were £66.3m (2016: £29.8m), of which contributions and transfers into the scheme within premium income in the year totalled £32.4m (2016: £13.0m). Key management personnel are also part of the scheme, with the total value of assets in the scheme relating to key management personnel being £1,074,702 as at 31 December 2017 (2016: £818,240).

The total employee benefits payable to key management personnel for the year ended 31 December 2017 was £5,836,170 (2016: £5,290,473).

Included within the balance sheet of Wesleyan Unit Trust Managers Limited (a wholly owned subsidiary of the Society) are investments held in Wesleyan Unit Trust Managers Limited's (WUTM) unit trusts funds. WUTM holds a £2.8m (2016: £3.5m) investment in these unit trusts, representing 2.8% of the total balance.

Additionally the Society directly holds a £17.0m (2016: £16.0m) investment in these funds. The remaining investments in these unit trusts are not consolidated in the Group's results, being ring-fenced funds owned by independent unitholders not held for the Society's own purpose.

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

GLOSSARY

Annual Bonus (With Profits): Bonuses which are added each year to conventional with profits policies to increase the guaranteed amount payable.

Annual Premium Value (APV): Used as a measure of Life and Pensions new business volumes. It is calculated by adding total premiums to be received each year for new regular premium policies and 10% of single premiums received in the year.

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

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

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

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

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

Closed Fund: A fund that has stopped taking on new business.

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

Defined Contribution Scheme: A scheme under which the individual member's contributions and those of their employer are invested to accumulate a pot of money which is used to provide an income in retirement.

Derivatives: Financial instruments, the prices of which are directly dependent upon the value of one or more underlying securities. They are often used to mitigate risk.

Discretionary Participation Feature: 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.

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

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

Financial Conduct Authority (FCA): A regulatory body which focuses on the regulation of conduct by retail and wholesale firms.

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

Group: Wesleyan Assurance Society and all of its subsidiary companies.

Group Operating Profit: A measure of profitability used to provide a better understanding of the operating performance of the Group. More information on how it is calculated is set out in the Results and Performance section of this report.

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

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

Individual Savings Account (ISA): A tax free investment contract, allowing investment into cash, stocks and shares and in certain other assets.

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

In-force Policy: Long-term business written before the period end which has not terminated before the period end.

Internal Available Capital: An internal measure of the Society's financial strength. This is calculated as the excess of assets over its liabilities as defined by the Society.

Maintenance Expenses: Expenses relating to the servicing of the in-force book of business.

Merger Scheme: A Court-approved Scheme, which sets out how the Open Fund and the MSS Fund should be managed.

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

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

MVR: Market value reduction. A reduction to the value of the units attaching to a Unitised With Profits policy on payment of a claim in circumstances where the policy's fair share of the fund is below the value of the units.

OILTBF: The Ordinary and Industrial Long-Term Business Fund.

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

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

ORSA: A tool of the risk management system that requires insurance undertakings to properly assess their own short and long term risks and the amount of own funds necessary to cover them.

Own Funds: A measure of the Society's financial strength. This is calculated as the excess of the Society's assets over its liabilities using an approach specified by the Prudential Regulation Authority.

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

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

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

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

PVFP/PVIF: Present value of future profits/ Present value of in force: a measure of the profits expected to be earned over the lifetime of in-force business.

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

Risk Appetite: The amount of risk that a business is prepared to take when carrying out its everyday activities.

Shadow Fund: A measure used as a guide to a unitised with profits policy's fair share of the fund. More details are provided in the PPFM.

Single Premium: A single payment for an insurance contract.

Smoothing: Smoothing is an important and fundamental aspect of with profits policies, allowing policyholders to benefit from investment in the stock market, but with the short-term highs and lows evened out. More details of how smoothing works are provided in the PPFM.

Solvency II: An EU-wide project that provided a comprehensive new framework for insurance supervision and regulation.

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

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

Swaption: A type of derivative used to mitigate risk from changes in interest rates.

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

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

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

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

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

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

With Profits Bond: A unitised with profits whole of life policy or conventional with profits fixed term policy sold on a single premium basis.

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

WSPS: Wesleyan Employees Pension Scheme.

WUTM: Wesleyan Unit Trust Managers Limited.

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